FINANCIAL TIMES

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MONDAY MAY 11 1998

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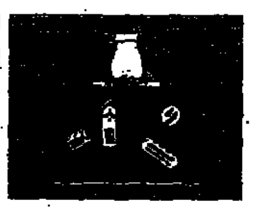

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WORLD NEWS

New concerns for US-Israeli relations after failure to revive peace talks

There are fears of serious damage to relations between Israel and the US after peace envoy Dennis Ross returned to Washington following his failure to persuade Israeli prime minister Benjamin Netanyahu to accept US proposals for reviving the peace process. Page 3; Observer, Page 15

Ignorance is risk
More multinationals face rising costs from emerging markets direct investments due to ignorance of risks such as organised crime, corruption, cronyism and religious fanaticism, says a survey by UK risk consultancy Merchant International Group. Page 5

Unctad pessimistic over Asia
Unctad, the United Nations Conference on Trade and Development, has made a pessimistic assessment of the impact of the Asian economic crisis on developing countries. Page 4; A fresh gale blows east, Page 15

Kosovo peace talks
Two senior US envoys return to Belgrade today for talks with Yugoslav president Slobodan Milosevic as time runs out to prevent full-scale conflict between ethnic Albanians and security forces in Kosovo province. Page 2

Safety probe for older 737s
The US government has ordered urgent safety inspections of older Boeing 737s to prevent another disaster such as TWA 800, in which 230 died over Long Island two years ago. Page 6

MEPs ponder genetic patents
European parliamentarians will this week reveal whether they have changed their minds about the patenting of biotechnological products. Page 2

China bans direct selling
Companies operating direct sales schemes in China will either have to close down or transform themselves into standard retailers following the government's decision to ban direct selling. Page 5

Financial passport moves
Efforts to forge a quick agreement among securities regulators to give multinational companies a "financial passport" acceptable on any leading stock market have come under attack from the US and Europe. Page 4

$270m Israeli works programme
The Israeli government is due to vote tomorrow on a one billion shekel ($270 million) public works programme designed to spur economic growth, the Treasury said.

Cash laundering curbs
Leading industrial nations have agreed to establish a worldwide anti-money laundering network and crack down on international tax avoidance and evasion. Page 4

EU farmers 'edging ahead'
British farmers are falling behind their European Union counterparts and losing their competitive advantage, the UK's National Farmers' Union will warn this week. Page 7

Chinese aviation opportunities
China is considering allowing more foreign investment in domestic airlines as part of the liberalisation of aviation, said an official. Page 4

Dam engineer killed
Floods killed a Spanish manager in north-eastern Algeria where he was overseeing the building of the country's biggest dam.

Life expectancy rising
Average life expectancy around the globe will rise from 66 today to 73 in 2025, forecasts the World Health Organisation. Page 3

BUSINESS NEWS

Liffe stakes claim to euro derivatives with listing of new equities future

The London International Financial Futures and Options Exchange will launch a battle for control of Europe's equity derivatives market when it lists a futures contract on the FTSE Eurotop 100 index. Page 17

Thomson Travel Group, the UK's largest package holiday company, is today expected to price its offer of 1bn shares at 170p – at the top of a 140p-170p range – following strong demand from both retail and institutional investors. Page 17

Credit Suisse Asset Management, the fund management arm of Credit Suisse, will today signal a big push to recruit more private investors as customers. Page 17

The European Bank for Reconstruction and Development is to provide a $30m loan to found the first energy conservation company in Ukraine. Page 2; Observer, Page 15

Telecom Italia's L3,600bn ($2.1bn) alliance with Cable and Wireless, the UK telecommunications group, has led to rifts between the Italian company's new top management and the government. Page 21

SEA of Germany, the world's second biggest maker of food machinery equipment, is preparing to spend up to DM2bn ($1.1bn) on acquisitions as part of a global expansion drive. Page 22

Robeco Group, the Netherlands' biggest manager of client funds, is to enter the US asset management market by paying up to $575m for Weiss, Peck & Greer, a New York investment house. Page 19

Chrysler chairman Bob Eaton said he was aware of of six other sets of negotiations between motor groups, following last week's announcement of the US company's merger with Daimler-Benz of Germany. Page 17

Goldman Sachs, US investment bank, plans to collaborate with Fuji Bank to distribute mutual funds. Page 22; Observer, Page 15

Bank of New York, one of the world's largest investment custodians, announced a strategic alliance with Standard Bank of South Africa. Page 20

Bombardier and GEC Alsthom Canada are to lead a consortium that plans to build an C$11.1bn (US$7.7bn) high-speed rail line linking Toronto with Ottawa, Montreal and Quebec City. Page 21

Indonesia and its foreign bank creditors failed to reach agreement on rescheduling an estimated $68bn in private sector debt, held mainly by Indonesian corporations. Page 16; Fresh gale blowing east, Page 15

Daewoo, the South Korean conglomerate, is to restructure. The group is looking to raise $7bn by 2000 through asset sales and mergers. Page 20

India's Industrial Development Bank reported pre-tax profits of Rs18bn ($452m) for the year to March 31, up 16.5 per cent. Page 19

Kazakhstan is to issue a $500m seven-year eurobond in June, its third eurobond issue since December 1996. Page 19

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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Europe may escape Iran and Libya sanctions

Move could lead to summit deal over long running dispute with US

By Guy de Jonquières in London

The US is preparing this week to lift its threat of economic sanctions against European companies that invest in the energy industries of Iran and Libya, senior European Union officials believe.

Such a move could pave the way for an agreement between President Bill Clinton and EU leaders, when they meet in London next Monday for their twice-yearly summit, on an outline settlement of their long dispute over US sanctions laws.

Signs of Washington's apparent shift emerged as US and EU officials reported significant progress in talks last weekend on a parallel dispute over the US Helms-Burton Act. Helms-Burton calls for sanctions against foreign investors who "traffick" in Cuban assets expropriated by the Castro government.

Both sides said important differences had still to be resolved in the talks, which will continue this week. A senior EU official said there was "a 60-40 chance – but no more" that a settlement of the disputes over Helms-Burton and the Iran-Libya Sanctions Acts could be hammered out in time for the summit.

EU officials said the US secretary of state, Madeleine Albright, had indicated to Sir Leon Brittan, EU trade commissioner, that Washington might grant European companies a waiver from the Iran-Libya Sanctions Act before or during the summit.

The act provides for penalties on foreign investors in the oil and gas industries of the two countries, which the US regards as "rogue" states.

The US State Department has been considering since last autumn whether Total of France, Gazprom of Russia and Malaysia's Petronas have violated the act by investing in a $2bn gas project in Iran.

Although the deal is widely thought to breach the law, the department has repeatedly postponed a decision, apparently fearing it could enrage the EU.

Washington has been under increased pressure to resolve the issue, by granting EU companies a waiver from the act, since it agreed with Brussels two weeks ago to try to clear up their sanctions disputes before next week's summit.

As well as seeking a waiver, the EU wants the US Congress to amend parts of Helms-Burton. It is also seeking a strong political statement by the Clinton administration that it will firmly resist any future moves by Congress to impose US laws on other countries.

In return, the US wants the EU to agree ways to stop international investors profiting from illegally expropriated assets.

A senior US official said the weekend talks had narrowed differences on this point, but EU negotiators said disagreements remained.

The US insists that the Iran-Libya act and Helms-Burton are unrelated issues and must be subject to separate negotiations. But the EU has linked the two laws, saying there can be no deal on Helms-Burton unless the US also grants waivers from the act.

The EU Council of Ministers would have to approve any draft settlement before the summit. Congress would then have to give its support. Officials said both processes would be tricky and could easily scupper an outline agreement.

France has made clear it will oppose a settlement while Total remains under the threat of sanctions. Britain, which holds the EU presidency, has told the Clinton administration that any deal must involve strong and permanent safeguards against future US attempts to extend its laws beyond its borders.

Sinn Féin's Martin McGuinness, left, and Gerry Adams, right, at the party's special conference with Hugh Doherty, a member of the Balcombe Street bombing gang and one of several IRA prisoners released from prison for 48 hours to attend the Dublin conference. Delegates overwhelmingly backed the Ulster peace deal. Page 10 Picture: AP

Schröder proposes alliance to cut German joblessness

Kohl's rival plans to cut company tax from 47% to 35%

By Ralph Atkins and Peter Norman in Bonn

Gerhard Schröder, the Social Democrat tipped to unseat Chancellor Helmut Kohl in Germany's election in September, is drawing up plans for employers, unions and the state to make binding commitments to tackle mass unemployment.

In an interview with the Financial Times, Mr Schröder said the "alliance for jobs" would set goals for at least four years, increasing planning security and Germany's economic competitiveness.

He also announced proposals to cap tax rates for companies at 35 per cent compared with up to 47 per cent under Mr Kohl's centre-right coalition government.

Mr Schröder underlined his strong support for an economic system based on balancing the interests of employees and shareholders.

He noted "more awareness among employers – notably the large ones – that they have not only a commercial responsibility but also a regional and economic responsibility. Germany's high unemployment rate – 11.4 per cent of the workforce – has been caused, to a certain extent, by large companies switching production overseas.

But Mr Schröder called for "an appropriate relationship" between supply side and demand side policies. He welcomed news that the merged Daimler-Chrysler group would adopt a German system of employee co-decision making.

An alliance for jobs under an incoming SPD-led government would seek to mesh its tax and social security policies with the requirements of employers, while managers and unions would also tailor wage negotiations to agreed objectives.

Mr Schröder criticised Mr Kohl's informal attempts to fashion an "alliance for jobs" as "hallmarked by far too few binding commitments".

Much of the responsibility under Mr Schröder would be handed to Walter Riester, the deputy leader of the powerful IG Metall trade union, who has been proposed as SPD minister for employment and social affairs. Mr Riester is "greatly respected by the employers' side", Mr Schröder said.

Details of an SPD programme would be thrashed out immediately after taking office under the umbrella of the jobs alliance. But cutting taxes on companies, possibly in stages, would be a priority, he said.

Mr Schröder also proposed significant reforms of Germany's creaking pay-as-you-go state pension system. New entrants to the labour market could expect basic provision from the state, but "it will be necessary to stress the need for more personal provision".

Mr Schröder wanted employees to have a greater stake "in the capital stock of the economy", possibly by recrafting collective wage agreements.

"I'm one of those who doesn't become irritated when the Dax [German stock exchange index] rises. I look on rising share prices as evidence of the capabilities of this economy," he said.

Germany's moderniser, Page 14

Tesco set for stake in Thai trading group

By Peggy Hollinger in London and Ted Bardacke in Bangkok

Tesco, Britain's largest food retailer, is expected this week to announce it is taking a stake in Thailand's second largest hypermarket operator for a price understood to be about £150m ($250m).

The company is in negotiations with CP Group, one of Thailand's largest trading companies, to buy a substantial minority stake in its Lotus chain of stores, located in Bangkok and other large cities.

Tesco's expansion plans in Asia have been accelerated by the collapse in asset values following the currency crisis that has swept the region over the past year.

Other European retailers, such as Carrefour of France and Ahold of the Netherlands, have also been expanding aggressively in the region.

Lotus operates 13 hypermarkets and is the biggest operator in Thailand after the Big C Supercentre chain, which has 20 outlets. Lotus is followed by Carrefour with seven. The Lotus hypermarkets are understood to be trading at break even.

Although Tesco's deal is restricted by government regulations limiting foreign ownership of Thai companies, it is thought the group aims to have management control of the business.

CP Group executives refused to comment on any disposal of the Lotus stores. But saddled with debt, the conglomerate is actively seeking to dispose of assets throughout Asia. The sprawling group's Hong Kong subsidiary warned last month that it was in danger of defaulting on nearly $100m in international bonds.

"Chairman Dhanin (Chearavanont) is sitting down and looking at the list of 300 companies, many of which he has never heard of before, and looking at where they fit," said Sarasin Viraphol, executive vice-president of CP Group.

"We expanded so rapidly, now it's time to think about disinvesting."

If CP sells Lotus it will be the first time it has cut into its retail holdings, which it considers a core business along with agro-industry and telecommunications.

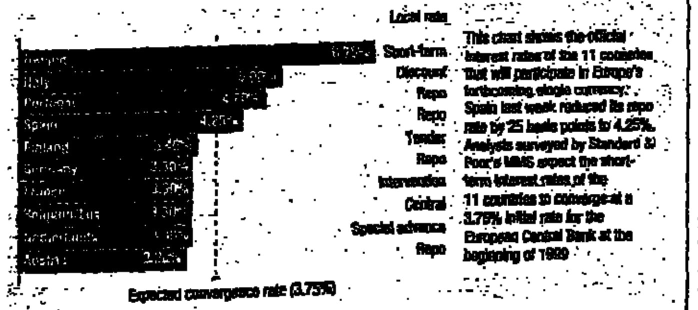
CP owns 40 per cent of Thailand's Siam Makro cash and carry stores, managed by the Dutch-based retailer. It also has the franchise for Seven-11.

CP executives had said these businesses were "untouchable". Analysts said selling Lotus was a sign of the company's need for cash.

The decision to sell comes at an opportune time for Tesco, which last year sent out four teams to explore opportunities in Thailand, Taiwan, Malaysia and South Korea.

A partnership with CP could also give Tesco an entry into China, where the Thai group owns a number of Lotus stores.

EURO INTEREST RATE CONVERGENCE



This chart shows the official interest rates of the 11 countries that will participate in Europe's forthcoming single currency. Spain last week reduced its repo rate by 25 basis points to 4.25%. Analysts surveyed by Standard & Poor's MMS expect the short-term interest rates of the 11 countries to converge at a 3.75% initial rate for the European Central Bank at the beginning of 1999

Euro prices, Page 27

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WORLD NEWS
EUROPE

BIOTECHNOLOGY PATENTS MEPs TO DECIDE

Directive on genetic tests set to pass

By Daniel Green in London and Samer Iskandar in Brussels

European parliamentarians will today and tomorrow reveal whether they have changed their minds on the patenting of biotechnological products. Three years ago they voted down a directive after an emotional debate. It was a surprise decision, not least because the directive had been six years in the preparation.

Now the directive has been amended to try to assuage MEPs' fears, but it is still vociferously opposed by a range of groups from the religious to scientific and environmental.

The directive is aimed at harmonising patent laws across the European Union, and bringing them in line with those in the US and Japan. It allows the patenting of genetically modified plants and animals, but not humans. It explicitly bans the cloning of human beings and changing human genes in such a way that the changes would be inherited.

Approval of the amendments, which require 314 votes in favour, is thought likely, paving the way for the adoption of the directive. However, the directive would have to be turned into national legislation by member states.

Plants and animals have been genetically changed for several years. Commercial applications include tomatoes with a rotting gene removed, so they can be harvested after ripening, and mice genetically predisposed to having cancer, which are used to study the disease and to test cancer drugs.

Drugs companies are testing ways of changing genes in people who suffer from genetic diseases such as cystic fibrosis, but under the directive it would be forbidden to change the gene in a sperm or egg to prevent subsequent generations from getting the disease.

Proponents of the directive say that without strong patent laws, the best European scientists would defect to the US, which would increase its lead over Europe in biotechnology. They argue that the directive does not expand current patent practice but just harmonises a patchwork of different national laws with the non-EU European Patent Union.

Its opponents argue that there has been no public consultation on the issue, and that the directive contravenes agreements on biodiversity and part of the US Bill of Rights, among other things.

Pressure groups such as the UK-based charity Gaia Foundation say that "mass starvation is likely to occur because poor farmers cannot afford to buy new [genetically modified] seed every year" and that healthcare motivated by corporate profit would lead to "an end to free screenings and research into rare genetic disorders".

Talks to avert Kosovo war

By Guy Dinmore in Belgrade and David Buchan in London

Two senior US envoys return to Belgrade today for a second round of talks with Slobodan Milosevic, the Yugoslav president, as time runs out to prevent a full-blown war between ethnic Albanian separatists and security forces in Serbia's southern province of Kosovo.

Diplomats said Richard Holbrooke and Robert Gelbard had made little progress in a weekend of talks with Mr Milosevic in Belgrade and Ibrahim Rugova, the political figurehead for Kosovo's ethnic Albanian majority, in the provincial capital Pristina.

Both leaders are under pressure from powerful nationalist groups that appear intent on using violence to settle the last big unresolved conflict left over from the break-up of former Yugoslavia. During nearly five hours of wide-ranging talks on Saturday night, Mr Milosevic rejected demands for outside mediation in the crisis despite an agreement by the six main western powers to ban new investment in Serbia.

The Kosovo crisis dominated the weekend discussions by foreign ministers of the Group of Eight powers, who expressed deep concern at the growing violence and polarisation in the province. The eight included the six members of the Contact Group, which had already threatened to impose the investment ban on May 9 if no progress were made.

The US, Britain, France, Germany and Italy decided to go ahead with the ban. As in the past, Russia refused to endorse the move. Canada said it would also restrict investment, while Japan said it would consider doing so.

Meanwhile, for his part Mr Rugova has refused to denounce the Kosovo Liberation Army (KLA), a rebel group backed by radical Albanians in exile that is stepping up raids on Serbian police and troops of the federal Yugoslav army. The US condemns the KLA as a "terrorist" organisation for its attacks on civilians among both ethnic communities.

Asked in Pristina yesterday how the conflict could be resolved, Mr Holbrooke replied: "I have no idea."

Mr Holbrooke's first mission to Kosovo reflects Washington's mounting concern that events are spinning out of control. A Wall Street banker since leaving government service, Mr Holbrooke, who is also the US special envoy to Cyprus, spent long sessions with Mr Milosevic negotiating an end to the Bosnian civil war in 1995. Then his job was made easier by US air strikes on Bosnian Serb forces. Diplomats say similar intervention in Kosovo is not on the cards.

"I was told that the violence is spreading like wildfire," Mr Gelbard added after their talks with Mr Rugova.

Richard Holbrooke with Albanian leader Ibrahim Rugova Reuters

Hungary poll picture unclear

By Kester Eddy in Budapest

Hungary's ruling Socialist party appeared to be holding on to its support in the first round of the country's general election yesterday, according to exit polls. But its junior coalition partner, the liberal Free Democrats, seems to have slipped badly.

The centre-right opposition Hungarian Civic party (Fidesz) was running neck and neck with the Socialists, according to a Szonda Ipsos opinion poll which put the Socialists just ahead with 31 per cent of the vote against Fidesz on 29 per cent.

Another poll by Gallup reversed the prediction, with Fidesz ahead by one point on 31 per cent.

Both polls gave the right-wing Smallholders party 14 per cent. The Free Democrats, who gained 18 per cent of the vote in the previous elections in 1994, were on 8 per cent.

Because of the complicated nature of the election, which involves seats awarded on a first-past-the-post and party list system, it is difficult to predict the final outcome. In 1994 the Socialist party, which gained 33 per cent of the party list vote, won 54 per cent of the parliamentary seats after a strong second-round showing.

The Szonda Ipsos poll put support for the far-right Hungarian Justice and Life party (MIEP) at 5 per cent, the threshold for seats on the party list. Gallup gave MIEP, which is headed by Istvan Csurka, the former Hungarian Democratic Forum MP, between 3 and 4 per cent. MIEP is currently without representation in parliament, and is opposed to Hungarian membership of Nato.

If the results follow the exit polls' pattern, and MIEP achieves the 5 per cent threshold, the second round could well be decided by tactical voting, with the coalition parties holding up the prospect of a Fidesz government. Fidesz will be working hard to persuade Smallholders candidates to step down in some constituencies so as not to split the opposition vote.

Voter turnout just before polls closed was just under 50 per cent, down on the 1994 elections by about 6 percentage points. Voting passed off without incident.

The second round of voting takes place on May 24.

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Tie up to euro, east Europeans told

By Stefan Wagstyl in Kiev

Charles Frank, the acting president of the European Bank for Reconstruction and Development, yesterday urged countries in central and eastern Europe to tie their currencies to the newly-created euro, the single currency of the European Union.

Countries which succeeded in drawing closer to the euro would gain better access to "the vast pool of capital in western Europe", Mr Frank said at the annual meeting of the EBRD, the multilateral bank for the former Communist bloc.

Linking with the euro "in some way" would be necessary for the 10 countries hoping to join the EU. Such a link would help interest rate and risk management and encourage investment.

Speaking at the same conference, Hanna Gronkiewicz-Waltz, president of the National Bank of Poland, the central bank, said Poland would over the next few years consider aligning its currency with the euro. The zloty, which is pegged to a basket of currencies in which the biggest weight is given to the US dollar at 45 per cent, could in future be pegged to a basket which gave an increasing weighting to the euro, said Mrs Gronkiewicz-Waltz.

The EU already accounted for 68 per cent of Poland's trade, with the biggest share carried out with nations joining European monetary union. The euro would benefit Poland by reducing transaction costs and risks in foreign trade, and by encouraging macro-economic stability in Poland, said Mrs Gronkiewicz-Waltz.

Philippe Maystadt, chairman of the EBRD board and deputy prime minister of Belgium, told the conference the Euro would benefit central and eastern Europe by forcing those countries, which were preparing for EU membership, and were committed to economic convergence, to accept exchange rate stability.

Some of the countries preparing for EU membership would join the successor of the European Exchange Rate mechanism. Mr Maystadt also said the euro would benefit exchange rate stability around the world. Once it was established, perhaps in three or four years, it would be time to consider some changes in the international monetary system to make exchange rates even more stable.

While fixed exchange rates were too rigid, it might be possible for the authorities to establish a "plausibility zone" in which the euro might trade against the US dollar and other currencies.

"I don't want compulsory objectives [for central banks] because that would require intervention. But there already are proposals for reaching more stability among major currencies without going back to fixed exchange rates."

Loan for Ukraine energy company

The European Bank for Reconstruction and Development announced at the weekend it would provide a $30m loan to found the first energy conservation company in Ukraine, **writes Charles Clover in Kiev.** Ukraine is one of the most energy-inefficient economies.

The newly founded Ukrainian Energy Service Company, UkrEsco, will use the EBRD's money to finance investments in energy conservation, and its clients will then pay a percentage of the savings on their energy bill as a fee, according to Bernard Jamet, director of energy efficiency at the EBRD.

While UkrEsco is majority state-owned, a number of fully private energy conservation companies are operating in eastern Europe, taking advantage of the tremendous cost savings that can be achieved in the region's energy-guzzling, Soviet-era factories.

NEWS DIGEST

DOUBTS ON CURRENCY'S FUTURE

Euro arrived too quickly, Swiss bank chief warns

The Swiss National Bank, which is likely to bear the brunt of any flight of capital out of a weak euro, has warned that the speed with which Europe's common currency is being introduced may have undermined its chances of long-term success.

Hans Meyer, president of the Swiss National Bank, believes the chances of the euro emerging as a stable currency would have been better if the recent convergence of economic conditions and policies in the euro area had been tested over a longer period before introducing a common currency.

In an interview with Central Banking magazine, he says it would have been better to ensure sustainability over a number of years and then wait until the end of that period before creating a single currency. But instead it was decided to put a date on the decision.

"The big question is whether this is the moment to crown the exercise with a common currency," says Mr Meyer, who also sounded a note of scepticism about the ability of the EU's stability and growth pact to secure sustainable convergence of the fiscal policies of the euro countries.

The Swiss central banker described his attitude towards the euro as "positive" but said that he had a "duty to be realistic". If Emu is successful, Switzerland would face a more stable environment. "If not we shall have to cope with an appreciation of the Swiss franc. But that is rather a familiar problem for us." **William Hall, Zurich**

SPANISH ECONOMY

Growth accelerates to 3.8%

Spanish economic growth accelerated further to an annual rate of 3.8 per cent in the first quarter, one of the highest in the European Union, according to estimates by the Bank of Spain. This was above the centre-right government's upgraded forecast for the year of 3.7 per cent, compared with 3.4 per cent in 1997.

If confirmed, the quarterly rate would be Spain's highest since 1990, when it was still enjoying the boom of its initial period of EU membership. In its latest report, the bank said the trend was backed by faster growth rates for fixed investment – running at 8 per cent – and private consumption, up 3.5 per cent compared with a year earlier. Some economists believe the growth phase is near its peak and that the quarterly rate is likely to tail off slightly later in the year as household consumption begins to slow. **David White, Madrid**

EUROPEAN COMMISSION

Strike threat lifted

Trade unions at the European Commission are to call off a threatened strike for May 20 after agreeing a framework with management for discussing personnel issues.

The management wants a review of personnel policies as part of a re-organisation of the way the Commission operates and has promised European Union countries a report on staff regulations, covering pay conditions, by the end of next year.

Last month Commission staff staged a one-day strike in protest against a paper written by Tony Caston, a former Commission official, suggesting ways of improving personnel management, including performance pay and fixed-term contracts for senior staff.

As part of the weekend deal the Commission agreed the paper would not be the basis for further discussions. It said that it and the unions had agreed to set up a group on personnel issues to report by October. **Michael Smith, Brussels**

DANISH REFERENDUM

Yes vote on EU expected

Danes will vote in favour of the European Union's Amsterdam Treaty when a referendum is held on May 28, according to a Gallup poll published in Copenhagen yesterday. The poll showed a majority of 46 per cent in favour of the treaty on closer political union among the 15 EU countries, compared with 34 per cent against and 20 per cent undecided.

Fears that the labour conflict which paralysed the country for 11 days until it was stopped by the government last week might sour voters' attitudes to the treaty are not supported by the results. A poll on April 16 showed 43 per cent in favour, 32 per cent against and 25 per cent undecided.
Hillary Barnes, Copenhagen

US fails to persuade Netanyahu

By Avi Machlis in Jerusalem and Stephen Fidler in Washington

Dennis Ross, US Middle East peace envoy, returned to Washington yesterday after failing to persuade Benjamin Netanyahu, Israel's prime minister, to accept US proposals for reviving the peace process, amid fears of serious damage to the two countries' relationship.

Mr Netanyahu did not even discuss the proposals as expected yesterday at a weekly cabinet meeting, even though the US has been awaiting Israel's response to its initiative.

A summit in Washington between Israeli and Palestinian leaders which the US had hoped to convene today has been postponed.

Madeleine Albright, US secretary of state, last week set today as the deadline for Israel to accept the US proposals, which centre on Israel handing over 13.1 per cent of the West Bank to Palestinian control, saying that the US would re-examine its approach to the peace process if they were not accepted.

Some Israeli officials tried to play down the tensions between Israel and the US. But other officials are growing concerned that a crisis with the US is imminent if Israel officially rejects the plan.

"Nothing positive will come out of Israel rejecting the US proposals," said one official, speaking on condition of anonymity.

"Nobody knows where it will lead. It could have repercussions on Israel's relationship not only with the US, but with international organisations, Europe and the Arab world."

Mrs Albright's proposals were regarded as an ultimatum. The Washington Post reported yesterday that she had also been authorised by President Bill Clinton to make a blunt speech describing the proposals and declaring an end to US mediation until Israel accepted them.

Benjamin Netanyahu: he is due to travel to the US later this week to meet pro-Israel lobbies Reuters

David Bar-Illan, Mr Netanyahu's chief spokesman, said a summit would "not appear to be possible" until May 28, claiming the prime minister could not fit it into his tight schedule.

However Mr Netanyahu is due to travel to the US later this week to meet pro-Israel lobbies in Washington, giving a clear signal that he will not adapt his timetable to pressure from Washington.

The Palestinians, who had hoped to get much more land from Israel at this stage, had already accepted the US compromise in talks with Mrs Albright last week in London. Mrs Albright invited the two sides to Washington to launch talks on a final settlement, if Israel agreed to the interim plan.

Mr Ross was due to meet President Clinton today, the original date for the planned summit.

Administration officials said there were still plans for a summit meeting later this month.

The US has been sending mixed signals to Israel since Mrs Albright's ultimatum. Last week, Hillary Clinton, the first lady, deviated from official US policy and voiced support for a Palestinian state. The White House was quick to clarify that Mrs Clinton was expressing her personal views.

Her husband made no reference to a Palestinian state when he addressed an Arab American conference last Friday.

But the fact that this was the first time a US leader had appeared before such a forum suggested a shift in Washington's policy towards the Middle East.

Mr Clinton was sharply criticised last week on Capitol Hill by the House speaker, Newt Gingrich, for pressing Israel to accept the proposals.

Life expectancy seen rising to 73 in 2025

By Frances Williams in Geneva

The World Health Organisation, which celebrates its 50th anniversary this year, expects continued improvement in the health of the world's population over the next quarter-century, with average life expectancy rising from 48 years in 1955 and 66 today to 73 in 2025.

However, in its 1998 World Health Report, the organisation argues that more needs to be done to reduce the large and widening gap between rich and poor, and to ensure longer life is not marred by disability and disease. The report, published to coincide with the opening of WHO's annual assembly today, expresses cautious optimism on both counts.

In his foreword Dr Hiroshi Nakajima, WHO's outgoing director-general, says there is evidence of "remarkable declines in disability" among older people in some industrialised countries. This may be a "vital signal" that people are learning how to live longer in good health.

Disability due to heart disease and cancers has been cut, in some cases dramatically, in richer nations by prevention programmes, education and better treatment, the report says.

At the same time, the challenges are daunting. By 2025 about 800m people – one in 10 of the world's population – will be over 65, compared with 390m today. Of these, two thirds will be in developing countries. In China alone 274m people will be over 60, more than the present population of the US.

This may signal that people are learning how to live longer in good health

Few countries, even among the wealthy, will be able to provide specialised care for the frail elderly, especially among the over-75s, the report says. France, for instance, is projected to have 150,000 centenarians by 2050, compared with only 200 in 1950.

Developing countries, where populations are ageing faster, face even greater problems with fewer resources. "Lifestyle" diseases such as heart disease, lung cancer and diabetes will become more prevalent, despite successes in fighting many infectious diseases such as polio, leprosy, guinea-worm disease, Chagas disease and river blindness.

The report says 26 nations, including some developing countries, will have life expectancy at birth of 80 or more by 2025. The world's most populous nation, China, will have a life expectancy of 75 and the second most populous, India, 71. However, some poor countries, mostly in sub-Saharan Africa, will have life expectancies below 60 years.

Noting that hundreds of millions of people remain trapped in poverty and disease, the report says the majority of premature deaths are preventable. At least 2m children a year die from diseases for which there are vaccines.

Life in the 21st century: A vision for all, available from WHO distribution and sales, CH-1211 Geneva 27, fax +41 22 791 4857, SFr17 (SFr10 in developing countries).

Algeria likely to end IMF programme

By Roula Khalaf

Algeria is unlikely to extend its $1.5bn programme with the International Monetary Fund, in spite of pleas by the IMF and the US, according to Abdelkrim Harchaoui, the finance minister.

The IMF has recommended extending the programme, which expires this month, because of the fall in oil prices. An extension would reassure creditors and investors and guarantee continued rigorous management of public finances.

However, Mr Harchaoui said the Algerian government had achieved results over the past four years that exceeded IMF projections and was no longer in need of financing.

Such is the confidence of the Algerian government that instead of pursuing the IMF programme, Algeria is preparing to tap international capital markets and set a benchmark allowing public companies to raise funds internationally.

The government is hiring Merrill Lynch to assist in obtaining sovereign ratings from Moody's and Standard & Poor's, Mr Harchaoui said. Merrill will also help develop domestic capital markets and active management of Algeria's rescheduled commercial debt, including debt/equity swaps.

Bringing the IMF programme to an end, in spite of Algeria's vulnerability to oil price fluctuations, is based in part on the need to project the image domestically and abroad that, in spite of more than six years of bloody violence, Algeria is on its way to financial and political stability.

"Another year with the IMF would make it look as if Algeria had not extracted itself from the crisis," said Mr Harchaoui.

He said that over the next three years, with the price of Algerian oil estimated at $14.5 to $15 per barrel, debt service would consume a maximum of 40-50 per cent of foreign exchange reserves – which now stand at about $8.8bn – leaving Algeria with reserves worth six months of imports by 2000.

"I told the IMF that we do not have a problem and we believe the Algerian economy will be supported by private investments, so what is the use of extending the credit facility?" he said.

But he insisted that the government would remain committed to budgetary discipline and the IMF would be invited for periodic visits.

Economists agree that, in spite of successful macro-economic adjustment, Algeria has yet to translate reforms into sustained growth and structural changes, such as divestment of an inefficient public sector and diversification from oil and gas, which make up more than 95 per cent of exports earnings.

An unemployment rate reaching 28 per cent is seen as a threat to social stability in an already violent environment.

While some economists believe the unemployment figures could be worse than officially recognised, Mr Harchaoui said that the parallel sector and tax evasion in Algeria exaggerated the decline in growth and the unemployment figures. He also put a positive spin on the future of the economy, dismissing threats of a social explosion and insisting that privatisation of the huge and inefficient public sector would take off this year, in spite of the violence.

Indeed, according to Mr Harchaoui, it is not the security threat that keeps foreign investors away from sectors other than the well-guarded oil and gas fields in the south.

"We have the largest market in the Maghreb and the most important economy. Investors would come if some politicians and lobbies did not tarnish the image of Algeria," he said, in a reference to international human rights organisations and Algerian parties which have been demanding scrutiny of Algeria's human rights record.

FINANCE MINISTERS' MEETING TASK FORCE TO BE EXPANDED

G7 to tighten cash laundering curbs

By Robert Chote, Economics Editor

Leading industrial nations agreed at the weekend to establish a worldwide anti-money-laundering network and to work together to crack down on international tax avoidance and evasion.

Finance ministers from the Group of Seven backed plans to expand the membership of the Financial Action Task Force and to encourage the development of further regional anti-money-laundering bodies.

The G7 wants better communication among industrial country tax authorities to curb evasion and avoidance through tax havens and preferential regimes. Reports of suspicious transactions will be made available to investigators overseas.

The ministers are worried by evidence that criminals can evade anti-money-laundering systems by presenting their activities as tax-related. They want financial institutions to report their suspicions about the movement of assets whether they are tax-related or not.

The G7 also announced a set of 10 principles to enhance the exchange of information among national supervisors of internationally active financial institutions.

"Given past experience with BCCI and Barings, the UK has been a longstanding advocate of improving co-operation between supervisors," said Gordon Brown, the UK chancellor of the exchequer.

The principles would give supervisors the authority to share information with counterparts overseas, including information on individual shareholders, managers and employees. The G7 countries also promised to remove laws impeding the exchange of information among supervisors.

Meeting barely three weeks after their last gathering in Washington, the ministers kept up their now traditional pressure on Japan to boost its economy. Their communiqué welcomed Tokyo's "substantial" fiscal stimulus package in April, but officials said attention had shifted to the need for financial sector reform.

The US was the only other country to be mentioned specifically in the communiqué: "We noted that the US economy required vigilance to stay on a sustainable path." Aside from the US and Japan, the other countries represented in London were Germany, the UK, Italy, France and Canada.

The ministers discussed possible reforms to the architecture of the international financial system in the wake of the Asian crisis. A report will go to the summit of G8 – G7 plus Russia – heads of government in Birmingham this weekend.

There was no agreement on British and Canadian proposals to improve international scrutiny of national financial regulatory regimes. These plans will now be discussed by senior G7 finance ministry officials.

The ministers also backed plans for a code of practice on monetary and financial policy, to be drawn up by the IMF alongside its existing code of practice for fiscal policy. The OECD will also draw up a code for corporate behaviour, include auditing, accounting, disclosure and corporate governance.

On electronic commerce, ministers argued for the removal of legal barriers and a tax regime that limited avoidance and evasion while not stifling business.

Gordon Brown: 'UK a longstanding advocate of improving co-operation between supervisors'

Illicit arms traffickers in top nations' sights

By Alexander Nicoll, Defence Correspondent

Leaders of the Group of Seven industrialised countries and Russia are expected to agree new steps to combat illicit arms trafficking when they meet in Birmingham, UK, at the weekend.

The heads of government are likely to decide on a statement of principles and an action plan along the lines of a convention adopted last year by the Organisation of American States (OAS), US and UK officials said.

Their agreement will advance decisions taken at previous summits. At Denver last year the leaders agreed to consider an international convention on arms trafficking, including means to trace weapons and tighter export and import licence rules.

Among the principles expected to be agreed are that there should be no safe havens for illegal makers and traffickers of guns, and that guns owned and dealt in legally must not be diverted into illicit trade.

A US Treasury official said the leaders would ask the so-called Lyons group of experts, which has been working on the issue for several years, to develop an international firearms protocol. This would form part of a broader global convention on serious transnational crime.

The aim is to reach agreement by 2000 on the firearms protocol and on the umbrella convention on crime to which other protocols on issues such as illegal migration and money-laundering – though not drugs and terrorism – would later be added.

Governments are stepping up efforts to regulate trade in guns and ammunition following the success of the international campaign to ban landmines. They are being cheered and goaded by non-governmental organisations (NGOs), which are making a concerted push on the issue.

The efforts reflect growing awareness of the loss of life to small arms. According to the British government, 95 per cent of war casualties are civilians. And according to Oxfam, the charity, 90 per cent of civilian casualties are caused by small arms – guns which a man can carry.

The OAS convention on which the G7 accord will be modelled aims to limit illegal manufacturing and trafficking through commitments to enactment of legislation and to export/import licensing systems; marking guns so that they can be identified and traced; and exchanging information and expertise.

The United Nations commission on crime prevention agreed last month to push for an international convention along similar lines to that of the OAS.

However, partly because of Washington's sensitivity to the US gun lobby, the OAS agreement – which has so far only been ratified by Mexico – is oriented towards curbing small arms mainly as a means to reduce crime. This does not satisfy NGOs which want to see G7 leaders making an explicit link between conflict and crime.

'Weapons used for violence in armed conflict are traded easily across borders and then put to criminal use'

"Weapons used for violence in armed conflict are traded easily across borders and put to criminal use, allowing assault weapons and military-style arms to fall into civilian hands," say Saferworld and the British American Security Information Council, two arms control NGOs.

They want tougher international action to destroy weapons after conflicts and tighter export controls on the industrialised countries which are the main arms producers.

The US Treasury official said the terms of the firearms protocol agreement remained to be negotiated and the problems of different regions of the world would influence their approaches.

Southern Africa, for example, is awash with weapons left from past conflicts. In Mozambique an exchange programme run by churches in which guns could be traded for income-producing items, such as sewing machines or fishing rods, failed for lack of funding – and because there was a risk that weapons would simply be recycled back into the community.

Saferworld and the Institute for Security Studies, a South African NGO, last week held a conference in South Africa, funded by the UK government, at which government experts from southern African and European countries produced a programme of measures which regional governments could adopt to deal with the proliferation of small arms.

Officials in the UK said that the EU could help with advice on policing and enforcement of customs and excise regulations, with equipment, and by helping to fund the destruction of weapons and public education.

The flow of small arms to such countries could also be slowed by efforts to tighten regulations on legal transfers of weapons, such as the proposed European Union code of conduct on which Britain is trying secure agreement during its EU presidency.

Unctad more pessimistic on Asia crisis

By Frances Williams in Geneva

A pessimistic assessment of the impact of the Asian economic crisis on developing countries has come from the United Nations Conference on Trade and Development, which says the crisis is already being felt in slowing export markets, most notably in Asia itself, and falling commodity prices.

In a preliminary study prepared for a trade ministers' meeting in Cairo of the Group of 15 developing countries, Unctad says the worst-affected countries have been those exporting commodities such as non-ferrous metals, timber, rubber and petroleum, whose prices have fallen substantially, and those with significant exports to the Asian region.

They include, apart from Asian countries themselves, Chile, Peru, Ecuador, Zambia, Tanzania, Congo (Brazzaville), South Africa and Saudi Arabia.

The "contagion effect" of the currency and stock market collapse in Asia has also led to tighter fiscal and monetary policies in a number of Latin American and east European nations, slowing projected growth this year. Foreign private financing for developing countries has also become scarcer and more expensive.

Like the World Trade Organisation, its Geneva-based neighbour, Unctad urges countries not to put up trade barriers or resort to competitive devaluations in response to higher exports from crisis-hit Asian countries.

This would slow the adjustment process and "endanger worldwide growth". "Open markets and the continued growth of global trade may be crucial for overcoming the crisis," the study says.

Unctad casts doubt on suggestions, by the WTO among others, that the impact of the Asian crisis on world growth will be limited because the economies directly involved are fairly small. It notes that the Association of South East Asian Nations as a group was the world's third largest importer of goods in 1996, after the EU and US, and by far the most dynamic in the past decade.

Moreover, since more than half Asia's exports are sold in the region, Asian growth overall will be affected.

'Financial passport' under attack

By Jim Kelly, Accountancy Correspondent

Efforts to forge a quick agreement among securities regulators to give multinational companies a "financial passport" acceptable on any leading stock market have come under attack from the US and Europe.

The senior US financial reporting regulator has described the goal of creating the new "passport" – a set of accounting rules acceptable on exchanges – by next year as "futile" and a threat to the global harmonisation project.

The pace of the programme is attacked in a letter to members of the International Accounting Standards Committee (IASC), which is trying to forge the core rules, by Ed Jenkins, chairman of the US Financial Accounting Standards Board (FASB).

He says the rush to meet the deadline set by Iosco, the club of stock market regulators, resulted in production of a poor-quality outline interim standard on financial instruments.

As a result the committee is at "a critical point in its history" and should slow down and spend more time on the project. Specifically it should wait for an international working party to produce a full standard on financial instruments.

Separately, the European Commission has written to Sir Bryan Carsberg, secretary general of the IASC, complaining that the committee's due process is being short-circuited in the rush to meet the Iosco deadline. John Mogg, director general of the Brussels' directorate dealing with the issue, said in a letter that he had warned the pace of the financial instruments project was damaging the IASC.

But Sir Bryan, in an upbeat summary of the IASC's latest meeting in Kuala Lumpur following the delivery of the letters, said the committee was now "positioned to complete the work programme in 1998".

He said a draft interim standard on financial instruments had been agreed "in principle" and would be voted on electronically once it had been published and circulated to board members.

He said the IASC had now finished nine of the 12 projects which made up the Iosco programme.

The IASC will see the attack from Mr Jenkins as evidence that it is approaching a critical stage in the project and that possible acceptance of international standards by US regulators at the Securities and Exchange Commission would damage the standing of the FASB.

The attack from Brussels signals the growing importance to the EU of international standards as part of Emu and its determination to protect full national representation in the control of the IASC.

NEWS DIGEST

CHINESE AVIATION

Foreign investors face better domestic access

China is considering allowing more foreign investment in domestic airlines, as part of the gradual liberalisation of the aviation industry. A senior official at the General Administration of Civil Aviation of China was quoted in the state media yesterday saying that Beijing would look at raising the level of permissible foreign ownership of a Chinese domestic airline in the second half of this year.

"We are considering the necessity of raising the ratio of foreign investment in domestic airlines from 35 per cent to 40 per cent," the official said. **James Harding, Shanghai**

SOUTH AFRICAN RUGBY

Head of national board quits

A bitter and unrepentant Louis Luyt, president of the South African Rugby Football Union (Sarfu), announced at the weekend that he would resign to stave off an international boycott of South African matches following demands from the government and most of the country's provincial rugby unions that he leave.

In an interview with an Afrikaans newspaper Mr Luyt said he was standing down because he could not trust his former supporters, because he did not want to leave Australia and New Zealand in the lurch, and because he wished to save South African rugby from further damage.

On Friday South Africa's National Sports Council launched a boycott of the country's rugby team following Mr Luyt's refusal to stand down at a Sarfu meeting the day before, and called on Ireland and Wales to postpone forthcoming tours. Matches against England and the Tri-Nations competition with Australia and New Zealand were also threatened after commercial sponsors joined the calls for Mr Luyt to resign.

The country's mainly white rugby administrators have been accused of failing to promote black rugby players and of financial mismanagement. The dispute divided South Africans along political and racial lines. **Victor Mallet, Johannesburg**

PARAGUAY ELECTIONS

Orderly start to polling

Voting in Paraguay's general elections got off to an orderly start yesterday under the scrutiny of teams of international observers led by the Organisation of American States (OAS). Although some polling stations opened late because of lack of ballot materials or rows between party officials, observers said the process was generally running smoothly.

The poll pits the Colorado party, in power for more than half a century, against the opposition Democratic Alliance Coalition. The elections were in doubt until last month because of feuding within the ruling party, which brought the country to the brink of military intervention.

César Gaviria, OAS secretary general, said the registers of voters were "relatively trustworthy" and he hoped for a "clean and transparent result". Security was tightened at the country's supreme electoral tribunal, which oversees the count.

In an address to the nation before the polls, president Juan Carlos Wasmosy urged calm and reconciliation. Mr Wasmosy, Paraguay's first civilian president for 40 years, is due to step down on August 15. **Ken Warn, Asunción**

US ENERGY SECRETARY

Richardson favoured for post

US President Bill Clinton is expected to announce soon that he will nominate Bill Richardson, US ambassador to the United Nations, to become his energy secretary, senior administration officials said at the weekend. "He is certainly at the top of the list" to replace Frederico Peña a senior official said in Washington. "We expect him to be the nominee."

Mr Clinton has not said who he will nominate to replace Mr Peña when he steps down in June. Aides said a formal announcement might not come for a few weeks.

Mr Richardson, a former member of the House of Representatives from New Mexico, had hoped to be picked as energy secretary at the start of Mr Clinton's second term in 1997. Instead he was given the UN job, partly because of a reputation for sympathetic dealings with third world nations.

Democratic party workers said a spell as energy secretary would serve Richardson's long-term political interests well. **Reuters, Williamsburg**

MALAYSIAN ECONOMY

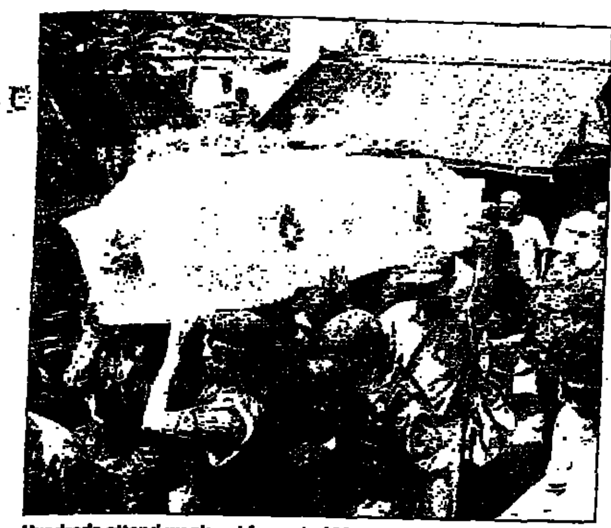
Budget surplus ruled out

Malaysia's economic problems will keep it from posting a budget surplus this year, Anwar Ibrahim, deputy prime minister and finance minister, said yesterday. Last year it recorded a M$6bn (US$1.6bn) surplus. "Striving for a balanced budget may also reduce expenditure, which will be burdensome on the people," Mr Anwar was quoted by Bernama, the government news agency.

But he insisted the government would not deny people basic necessities, such as healthcare and education, or curtail poverty eradication programmes.

Mr Anwar's comments signalled a growing recognition by the government of the scope of the problems presented by the regional crisis. At the end of last year the authorities were still predicting a speedy recovery. Earlier this year, however, Mr Anwar reduced the economic growth forecast to 2-3 per cent, down sharply from the 7.8 per cent growth recorded last year.

Analysts and investors have criticised the government for focusing rescue efforts on well-connected companies, but Mr Anwar indicated it was first rewarding those which had been good to the nation. He said the government would not forget the corporations which had been insensitive to calls for more scholarships or worker housing, or even those which made only token efforts to help. **Sheila McNulty, Kuala Lumpur**



Hundreds attend weekend funeral of Moses Gatutkaca, first fatality in increasingly violent protests against President Suharto AP

Suharto keeps grip despite new problems

By Sander Thoenes in Jakarta

Three days of rioting last week in Medan, a renewed attack on the rupiah and a rise in interest rates have brought fresh problems for Indonesia's President Suharto but not shaken his grip on power, diplomats and political analysts said.

Mr Suharto has become deeply unpopular as a result of the economic crisis and price rises for fuel and transport imposed under the International Monetary Fund rescue programme. But analysts agree he is unlikely to be challenged in the short term despite mounting pressure on student campuses.

Most Indonesians, including the army, shy away from drastic action and are reluctant to become involved in protest even when they sympathise with the students' calls for an overhaul of the country's legal and political system and the replacement of the president.

While Medan looks as though hit by a tornado and tear gas filled the air above a number of student campuses, much of Indonesia is still remarkably quiet.

Mr Suharto can nonetheless not relax. Opposition leaders think popular protests will grow in a few months' time, for instance in August, when school fees are due and Indonesians cannot pay.

Support for Mr Suharto has also started to erode among the establishment. The council of Catholic churches and a prominent group of Islamic intellectuals called for political reform last week.

The key to Mr Suharto's position is still the armed forces, ABRI as they are known. Diplomats think ABRI is uncertain about how to react. "We don't know because the military does not know," one diplomat said. "They are facing such conflicting interests. They want to be loyal to Suharto and be the people's army they claim to be."

A much discussed split in ABRI has yet to surface. Some analysts argue instead that generals have formed a more united front in the face of the current challenges and the prospect of a post-Suharto era in which they will again, most probably, help decide who takes over.

General Prabowo, son-in-law of Mr Suharto, commander of the strategic reserves and long rumoured to be a bitter rival of the chief commander of the armed forces, General Wiranto, is a case in point. He said last week that he and his troops were fully behind Mr Wiranto's efforts to keep and restore order in Medan.

"ABRI wants to prove it does not want to keep the status quo," Mr Wiranto said, as he promised to turn student demands into concrete proposals in parliament, where ABRI still holds 75 seats. That indicates that the threats to Mr Suharto's power may be serious, but not as immediate as the scenes from Medan suggest.

DIRECT INVESTMENT ORGANISED CRIME, CORRUPTION, CRONYISM AND RELIGIOUS FANATICISM MAKE EMERGING MARKETS A PROBLEM

Companies hit by non-conventional risks

By Emiko Terazono

An increasing number of leading multinationals are facing rising costs from their direct investments in emerging markets because of lack of awareness of non-conventional risks such as organised crime, corruption, cronyism and religious fanaticism.

According to a survey of 7,000 international companies released today by Merchant International Group, a London-based risk consultancy, 10 per cent of total direct investment into developing countries is lost as large companies tend to deny or play down the importance of such problems and allocate inadequate resources.

A country ranking which combines sovereign risk and non-conventional risks indicates that Pakistan poses the greatest risk for direct investment by international corporations, followed by Ukraine, Indonesia, Russia and Burma.

MIG warned that despite the increasing non-conventional risks – which it terms "grey area factors" – companies were still basing their investment decisions on traditional market research.

The grey area factors severely affect investment viability by adding to costs through bureaucratic delays, corruption, unfair market competition, lost labour hours, cultural problems, extremist activity, fraud, theft and poor communications.

The report reviewed investments by leading US and European multinationals, including Lufthansa's joint venture with Modi, an Indian group whose controlling family became entangled in a feud, and the disastrous expansion by Kimberly-Clarke, the US sanitary products maker, into China.

Of the companies surveyed, 42 per cent cited organised crime as a leading impediment to investment, while 43 per cent experienced bureaucracy delays and corruption.

More than 40 per cent noted an absence of legal safeguards, 27 per cent cited vested interests impeding investment, while 19 per cent experienced religious fanaticism.

In spite of such problems, MIG noted that companies were failing to learn from their lessons, because of corporate arrogance, naivety and inadequate allocation of resources.

Some 40 per cent still believed that intellectual, cultural and commercial superiority meant that they could mitigate the unanticipated problems in local market, while 22 per cent relied only on in-house research.

The report revealed that among emerging markets, Poland, South Africa and Turkey ranked as favoured direct investment destinations for multinationals, with Latin America gaining in popularity.

Companies remained cautious about Russia, but a large percentage noted that the "horror stories" presented by the media were overdone.

Pakistan forces power groups to cut tariffs

By Farhan Bokhari in Islamabad

Pakistan has forced nine of the country's 19 private power companies to reduce their tariffs as part of an official campaign to cut the public sector's growing losses, which the government said were caused by exorbitant payments to private power producers.

Nawaz Sharif, the prime minister, in a speech on national television on Saturday, urged the remaining 10 companies to "reduce their rates and do justice" to save Pakistan's public sector from mounting losses.

The government said that the state-owned Water and Power Development Authority (Wapda), the country's main power generation and distribution company, was facing heavy losses because of large payments to private power producers.

Wapda is compelled to buy at least 60 per cent of the approximately 3100MW of electricity due to be produced together by all the 19 power projects.

The success in winning lower tariffs, however, could well be a qualified victory for Mr Nawaz Sharif's regime, a government that prides itself on being "investor friendly", analysts said in their first reaction.

Businessmen said that official threats to launch wide-ranging investigations into alleged corruption in the contracts signed under a 1994 power sector investment policy announced under Benazir Bhutto, the former prime minister, had triggered fresh anxieties over the country's investment climate.

"This campaign has the danger of becoming a witch-hunt because the power policy came under a previous government which now sits in opposition," said one chief executive. "Pakistan has a polarised atmosphere where one government tries to undo the work of another."

Mr Sharif also criticised two of the private power generators, Hub Power Company and Kot Addu Power Company.

He accused them of negotiating "excessive tariffs" under the Bhutto government which were substantially higher than that charged by Wapda from its consumers. Britain's National Power is a shareholder in both companies.

Nawaz Sharif: urged remaining 10 companies to cut rates

China clamps down on direct sales schemes

By James Harding in Shanghai

Companies previously operating direct sales schemes in China will have to either close down their businesses or transform themselves into standard retailers, following the government's decision to ban direct selling.

A senior official at the State Administration for Industry and Commerce yesterday reaffirmed China's commitment to last month's ban, but left open the door for legally registered companies to remain in business by setting up as shops or regular distributors.

Beijing's decision to outlaw direct selling has not only disrupted business for a number of large US companies, such as Amway and Avon, but it has also dashed the hopes of more than 2.6m people who had joined chain selling operations to make their fortunes.

However, state media yesterday sought to play down the extent to which international businesses have been derailed by last month's sudden decision to ban direct selling, reporting that both Amway and Avon were pressing ahead with separate investments in facilities in Shanghai and Guangzhou, southern China.

There are an estimated 1,500 companies operating pyramid sales schemes in China, but only 518 of the schemes were legal, according to the China Daily Business Weekly, the government-owned newspaper.

Pyramid schemes tend to involve branded products, typically household goods, healthcare products and cosmetics, which people buy from an issuing company to sell on to friends, family and neighbours.

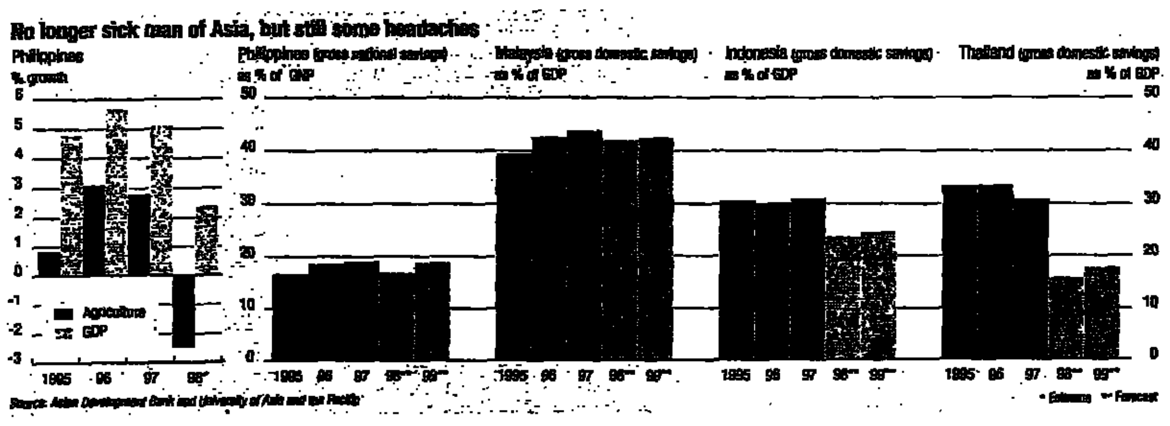
As aspirations have grown with the widening income gap and a growing number of underemployed and jobless people look for a quick way of joining the wealthy middle class, direct selling schemes have flourished. In Shanghai, for example, 258,000 people were involved in pyramid selling at the end of March.

Wang Zhongfu, director of the State Administration for Industry and Commerce, was quoted yesterday as saying: "It's necessary to stop the operation of pyramid sales since it has begun to hurt social stability and economic development."

The Chinese government took the move to stop pyramid businesses, in part to protect some of China's trusting consumers who had been hoodwinked by unscrupulous door-to-door salespeople (miracle-cure traditional medicines have been a common scam) and because officials were concerned about social and quasi-religious sects that they feared had grown up around some direct selling operations.

Usual razzmatazz in Philippines poll campaign as the politicians find little to debate

Filipinos have been unenlightened on the critical issues as the country emerges from the Asian crisis, reports **Justin Marozzi**



Source: Asian Development Bank and University of Asia and the Pacific

Filipinos go to the polls today to choose a successor to President Fidel Ramos in the country's second national elections since the People Power revolution that overthrew the late dictator Ferdinand Marcos in 1986.

The three-month campaign season has been devoid of serious debate. With the usual razzmatazz associated with Philippine elections, throngs of movie stars, beauty queens and comedians have descended on the provinces to add glitz to politicians' campaigns.

The two front-runners, Joseph Estrada, the populist vice-president, and Jose de Venecia, the administration candidate, have meanwhile traded wild allegations about assassination attempts.

Enthralled by the show, Filipinos have nevertheless been unenlightened by the absence of debate on the critical issues facing the country as it emerges from the Asian crisis.

Such populist electioneering is hardly surprising, however, considering that politicians are competing for the votes of the third of the population who live below the poverty line.

Perversely, the lack of discussion on the country's economic agenda is not entirely negative.

It is a striking indication of the consensus on the economic reforms started by the administration of Corazon Aquino in 1986 and continued in earnest by Mr Ramos since 1992.

These reforms have rid the Philippines of its traditional image as the sick man of Asia and lifted it from negative growth in the early 1990s to growth of 5.1 per cent last year.

In a short space of time free-market orthodoxy has displaced the economically destructive protectionism and nationalism of the Marcos era as the prevailing ideology. All leading presidential candidates subscribe to it.

"The economic policy direction will not change under a new administration. What could be different is the momentum of reforms," said Julius Caesar Parreñas, head of CRC, a Manila-based think tank.

Whoever captures the presidency, high on the list of areas requiring urgent attention is agriculture, which provides employment for more than 40 per cent of the workforce but accounts for only 20 per cent of gross national product.

Years of neglect and under-investment in critical infrastructure such as irrigation systems, dams and farm-to-market roads have left an underperforming sector that is a sharp brake on economic progress.

"The Ramos administration has focused too much on the urban centres," says Bernardo Villegas, dean of the school of economics at University of Asia and the Pacific.

Last year, agriculture grew at 2.8 per cent. Ravaged by El Niño, it is forecast to contract by about 2.5 per cent in 1998.

Both Mr Estrada and Mr de Venecia say agricultural reform will be a priority but public spending on infrastructure will be crucial.

If this is to become a reality, the country must increase its long-term savings. The low savings rate, which has long lagged behind other countries' in the region, highlights the country's overdependence on foreign capital inflows. At 19.2 per cent of GNP last year, domestic savings compare unfavourably with Thailand and Indonesia, both on 31 per cent.

The government missed the opportunity to encourage the development of the domestic capital market in last year's tax reform legislation but a new administration must revisit the problem to promote private sector debt issuance, restructure the tax treatment of debt instruments, and strengthen the secondary market, say economists.

"Considerable policy and institutional reforms are required to develop the domestic debt market to cater to the economy's long-term investment needs," says the Asian Development Bank.

Education is in the doldrums and the gains made over the country's south-east Asian neighbours have been eroded over the past decade.

The country prides itself on an educated, English-speaking workforce that has helped lure in droves of foreign investors, but most observers now agree standards have plunged.

Amendments to the 1987 constitution are also urged by many in the financial community, not least to clip the wings of an overweening judiciary that has intervened in business decisions.

Both presidential frontrunners say they will convene a constitutional convention.

The anathema with which the business community has long regarded Mr Estrada has softened over the past few months into a more guarded suspicion that he might not be so bad after all, a view reinforced by his recent unveiling of a coterie of 30 generally respected advisers.

A populist politician and former movie star, Mr Estrada is more known for his on-screen performances as a gun-toting Robin Hood figure and for a flamboyant personal life than for his commitment to sound economic management.

His campaign slogan is "Erap for the poor!" (Erap, his nickname, is slang for buddy/friend.) But even he talks of the need to "consolidate and accelerate economic growth through the pursuit of sound free market- oriented, environmentally sustainable economic policies".

Mr de Venecia's commitment to deepening the Ramos reforms has never been in doubt – he was instrumental in getting them through a fractious Congress – but observers worry about his reputation as a wheeler-dealer with business links to the Marcos era.

By comparison with the Herculean challenges facing Fidel Ramos in 1992, when free-market economics had yet to become the new orthodoxy, political instability hovered over the country, the tasks ahead for a new president might appear slight.

But with immediate worries such as a deteriorating fiscal position, punitively high interest rates, and a banking sector in need of strengthening, there will be little time for him to celebrate his inauguration in Malacañang Palace on June 30.

Clinton relies on his adversaries to keep his approval ratings in peak condition

Gerard Baker explains why the president would have been hard pushed to better Starr, Gingrich and Burton as opponents

As President Bill Clinton escapes the US for yet another extended foreign trip this week, this time to Germany and the UK, his political opponents will seek to intensify the pressure on him over the continuing scandals that surround the White House.

In the last few weeks, Republicans have become emboldened in their attacks on the president. They have been gambling that the public might at last start to feel some concern at the welter of allegations of wrongdoing in matters ranging from the Whitewater property deal of the late 1980s to sexual misdemeanours in the White House.

But there is little evidence that, for all his opponents' sound and fury, ordinary Americans see the president's alleged wrongdoings as more than minor indiscretions

The events of the last week were a case in point. It should have been a bad one for Mr Clinton. Last Monday Susan McDougal, his former friend, business partner and convicted felon, was indicted again on further charges of obstruction of justice in the Whitewater case.

On Tuesday a federal judge ruled inadmissible the president's claim that executive privilege protected his closest advisers from testifying before Kenneth Starr, the independent prosecutor about what they knew of the Monica Lewinsky sex case. On Friday, another former presidential friend and convicted felon, Webster Hubbell, appeared in court on charges of tax evasion.

But at the weekend there was not the slightest sign of slippage in Mr Clinton's record high approval ratings

Politicians and pundits have been puzzling over the president's apparent invulnerability. Some attribute it to the strength of the economy and a surging stock market. Others argue it stems from a popular distaste for antics of the press, or that it reflects a conviction that the allegations come down to questions of sex and are or should be irrelevant to the president's performance as chief executive.

But the last week has revealed more clearly than ever that one of the principal sources of Mr Clinton's success is the popular contempt for his opponents.

If Mr Clinton could have chosen his own adversaries in the swarm of scandals, he could hardly have picked better than Kenneth Starr, Newt Gingrich and Dan Burton.

These three men – the leading figures in the investigation of the president – enjoy a combined approval rating among the public at large roughly equal to the president's personal rating.

Mr Starr, the prosecutor who once campaigned as a Republican, is seen as partisan, pursuing a political vendetta against the president. Some of his moves have demonstrated all the deftness of a tank.

In the last two weeks Mr Gingrich, who had been reconstructing his own reputation as a kinder, gentler politician, has gone on the offensive against Mr Clinton, accusing him of subverting the constitution.

And Mr Burton, the chairman of the House government oversight committee, who stole the headlines with his claim that Mr Clinton was a "scumbag", is widely regarded as a liability by his own colleagues.

Opposed by these three, Mr Clinton has, for all the question marks around him, cut a dignified figure. Remarkably, his White House staff have even done an effective job of portraying him as a victim.

Gleeful White House staffers have, in fact, coined a new term for the continuing inquiries – the "Starr-Gingrich-Burton" investigation.

"What we really need", says one Republican strategist, "is someone who commands widespread public support leading the questions against the president."

The immediate problem is merely a symptom of a much broader political difficulty for the Republicans.

Mr Clinton has enjoyed the good fortune of weak political opponents for much of his presidency. It is widely acknowledged that the Republican leadership in the Congress – Mr Gingrich and his senior colleagues in the House, Trent Lott and others in the Senate – are no match for Mr Clinton's political skills.

And in the rest of the country, as Republican strategists are nervously aware, there is scarcely a prominent credible leader in waiting, with the possible exception of Governor George W. Bush of Texas.

To some extent this is not new. The American constitutional arrangement ensures that, as the only nationally elected politician, the president enjoys a status way above his political opponents.

The dignity of the office ensures a national respect accorded to no other politician.

But Republicans worry that there is something different about the current political contest. It is rare that the party not in control of the White House should have a leadership as unpopular as the current Republican chiefs.

This problem may be a reflection of the broader crisis in the Republican party. In order to be acceptable to the party's conservative heartland, it is generally now necessary for senior party members to espouse a conservatism well to the right of what most Americans feel comfortable with.

To some extent the same is true in reverse of the Democratic party in congress. Its leadership is increasingly liberal-inclined – a position that seems equally unpopular in the country.

That leaves a moderate president, popularly elected, with a wide open space in the middle of the political spectrum. Mr Clinton has occupied that territory highly effectively.

Popular contempt for Burton (left), Gingrich (centre) and Starr is Clinton's main source of success

Brazil plans to slow fall in value of Real

By Geoff Dyer in Brasilia

The Brazilian government plans to slow the speed at which its currency depreciates against the US dollar in order to allow more room for interest rate cuts.

Francisco Lopes, a director at the central bank, said that the new, more flexible exchange rate policy, which the government announced 10 days ago, would allow it to slow down the rate of depreciation in a gradual and cautious manner.

"By decelerating the depreciation of the exchange rate, we will have more scope to cut interest rates in the medium term and to reduce our large interest bill," Mr Lopes said in an interview.

The change in policy direction will disappoint exporters, who have been pushing for a more aggressive devaluation of the currency to increase competitiveness.

Economists believe that the Brazilian Real is overvalued by 10-20 per cent, which contributed to the sharp rise in the current account deficit last year to 4.3 per cent of gross domestic product.

However Mr Lopes' comments reflect the government view that the more pressing concern is the budget deficit, which is currently 6.5 per cent of GDP, and is being aggravated by the high level of real interest rates of around 20 per cent.

Brazil's foreign exchange policy of a gradual and controlled depreciation against the dollar has been the centrepiece of its four-year-old reforms, which have brought once rampant inflation down to single digit levels. Until now, the Real has depreciated by 7.5 per cent a year against the dollar.

The government announced 10 days ago that the Real's trading band against the dollar would be broadened by 0.1 centavos every month so that in 3 years, the trading band would be around 3 per cent of the value of the Real.

Mr Lopes said the greater flexibility of the new regime would curb the risk of one-sided bets against the currency by increasing the potential losses for speculators. The greater volatility in the currency would also reduce the potential for short-term interest rate arbitrage, which would facilitate a movement to longer-term capital flows into the country. "It is part of a longer term project whereby Brazil has to move to a freer foreign exchange market with fewer capital controls."

The government had decided to introduce the change now in order to prevent speculation in the run-up to the October general election.

Changes to both the trading band and the rate of depreciation would be in "a smooth and gradual movement". One of the lessons of the crisis in Indonesia had been the dangers of "a sudden movement from one exchange rate policy to another", said Mr Lopes.

Boeing safety probes ordered

By Richard Wolffe in Washington

The US government yesterday ordered urgent safety inspections of older Boeing 737s to prevent another disaster such as that of TWA flight 800, in which 230 died over Long Island two years ago.

The Federal Aviation Administration said some older aircraft could not carry passengers until airlines had checked electrical wiring in the wing fuel tanks.

The agency's action came after early results from inspections ordered last week, when mechanics on a Continental Airlines 737 discovered fuel leaking out of a hole resulting from erosion caused by electrical sparks.

Further safety inspections at the end of last week revealed worn insulation on the fuel gauge wiring of a United Airlines 737, as well as signs of electrical arcing.

Investigators into the TWA disaster – which involved a Boeing 747 – have not yet discovered the exact source of the explosion in the aircraft's wing fuel tank.

But inspectors at the National Transportation Safety Board have already recommended searching for damaged wires in Boeing 747s. They feared that sparks from bare wires could ignite fuel vapour in tanks, leading to potentially catastrophic explosions.

The FAA has yet to decide on the 747 inspections, but said it was working closely with Boeing to reduce or eliminate the dangers of igniting explosive fuel/air mixtures.

Sumitomo deal in copper row

The US Commodity Futures Trading Commission will announce today that Sumitomo Corporation, the Japanese trading group, has agreed to pay a record \$150m to settle charges of illegal copper trades, Reuters reports from Washington.

A CFTC spokesman said the agency would hold a news conference today but gave no details.

On Friday Sumitomo officials said in Tokyo that the company would set aside \$150m in reserves to cover some of the future costs related to the copper scandal. Those funds would be used to pay the CFTC fine, Reuters was told. The penalty is the largest in the agency's history.

Of that amount \$125m would go to pay the agency's penalty and the other \$25m would be put aside to settle other class action lawsuits in the US against the company.

The CFTC could also ban the company from doing business in US futures markets, but such a harsh penalty appeared unlikely.

The agency, which oversees US futures markets, began investigating Sumitomo after the company disclosed in June 1996 that its top trader, Yasuo Hamanaka, conducted unauthorised copper trades that eventually racked up \$2.6bn in losses.

Mr Hamanaka and the company were accused by traders at the New York Mercantile Exchange's Comex Division and the London Metal Exchange of trying to manipulate the copper market.

Based on past settlements of CFTC enforcement cases, it would not be unusual for Sumitomo to agree to co-operate with the agency on further investigation of the illegal copper trades, such as which firms and individuals helped Mr Hamanaka conduct his trading.

Mr Hamanaka was sentenced in March by a Japanese court to eight years in prison for his unauthorised trades and earned the nickname "Mr Five Percent", a reference to his alleged controlling interest in the world copper market.

SIERRA LEONE FOREIGN SECRETARY PREPARES FOR SCRUTINY OF GOVERNMENT ROLE IN WEAPONS DEAL

Ministe· vows to resign if implicated

By Liam Halligan and David Buchan

Robin Cook, the foreign secretary, yesterday fought to save his political reputation, vowing to resign if an independent inquiry into controversy over arms sales to Sierra Leone discovers any ministerial wrong-doing.

As Sandline International, the UK company accused of arranging illegal arms exports to Sierra Leone, insisted it acted with official approval, Mr Cook clerd his diary to deal with allegations that the government complied in a weapons deal which breached a United Nations arms embargo.

Freetown, Sierra Leone's capital, and (right) Sandline chief Tim Spicer Tom Finnie/Reuters

He insisted repeatedly that there had been no ministerial approval for Sandline to supply arms used in a counter-coup in March that overthrew a rebel government and reinstated President Ahmed Tejan Kabbah.

"There was never any record or evidence of ministerial discussions or involvement with Sandline," Mr Cook said.

As opposition parties insisted that ministers should have known about the shipment, Donald Anderson, the Labour chairman of the House of Commons foreign affairs committee, said the government had created "a mess".

William Hague, leader of the opposition Conservative party, asked: "Did ministers know what was going on and if not, why not?" Charles Kennedy, a senior Liberal Democrat MP, referred to "an instinctive reflex action" among ministers to blame officials. "If you're setting up an independent inquiry, it does seem to almost prejudge events to say ministers are not responsible," he said.

There were also cross-party calls for a proposed inquiry into the Sandline deal to be broadened to cover ministers and officials at the Ministry of Defence.

Foreign Office officials said possible names to head the independent inquiry into the affair, which will follow an investigation by the Customs & Excise department, included Sir Thomas Legg, a former permanent secretary at the Lord Chancellor's department, and Sir John Chilcot, former permanent under secretary at the Northern Ireland Office.

In another development, Sandline drew attention to newspaper pictures showing Royal Navy engineers on HMS Cornwall, a British warship, alongside an Mi-17 helicopter provided by Sandline to the West African forces which helped oust the Sierra Leone rebels. The implication was British military personnel helped service the aircraft – which could be seen as complicity in the overthrow of the rebels. The Foreign Office admitted there had been contact with the Sandline helicopter and its crew after the junta leaders had fled Sierra Leone, but said any claim of complicity in the overthrow was "absolute nonsense", and that the helicopter was engaged in humanitarian relief work.

Tony Blair, the prime minister, threw his weight behind Mr Cook. His office dismissed parallels between the controversy and a similar scandal over arms sent to Iraq which damaged the Conservative government.

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Foreigı Office minister stumbles on 'arms-to-Africa'

Controversy over Sierra Leone has added to a turbulent year in office writes Liam Halligan

In words he may come to regret, Robin Cook, Britain's foreign secretary, said in a televised documentary earlier this year: "I have recognised you can be a successful foreign secretary if you focus on one big question and not necessarily finish the paperwork."

The "arms-to-Africa" controversy is the latest of a series of problems to beset Mr Cook – figure many expected to flourish when Labour won last year's general election but who has turned out to be accident prone.

Despite formidable intelligence, Mr Cook's first year in office has been at the most turbulent of both his political and personal life.

Within weeks of launching an "ethical foreign policy" designed to inject a high moral tone into his powerful ministry, Mr Cook became embroiled in a row over the government's reaction to the eruption of a volcano on the British Caribbean territory of Montserrat.

His hectic life was then turned upside-down, when tabloid newspapers revealed an extra-marital affair with his secretary – a scandal followed by divorce; and accusations – vigorously denied – that he had tried to sack a long-standing Whitehall official to install his lover in her place.

Perhaps his most difficult moment came in March, when he infuriated Israelis by visiting a Jerusalem settlement where Palestinians were protesting over Jewish expansion.

But the row over British exports of arms to counter-coup forces in the former British colony of Sierra Leone is potentially far more damaging. If proved, the allegation that Sandline International acted with official approval in breaking a UN embargo would suggest Mr Cook was either incompetent – if he was unaware of his officials' actions – or hypocritical, given his "ethical" policy stance.

Awkwardly for Mr Cook, he led opposition efforts to damage the last Conservative government during the arms-to-Iraq affair – a long-running row over the extent of Conservative complicity in breaching another arms embargo. As a result, he would find it particularly difficult to blame Foreign Office mandarins rather than himself for any wrongdoing eventually identified.

"It would be outrageous," Mr Cook said during a 1992 inquiry into arms-for-Iraq, "if civil servants resign while ministers absolve themselves of responsibilities".

This may be why some government members fear the often-prickly Mr Cook may try to blame Tony Lloyd, the junior minister responsible for African policy, accused of misleading MPs about a customs and excise inquiry into Sandline.

As Mr Cook yesterday pleaded for the media to "suspend its judgment about these unfounded allegations", Lord Owen, a former Labour foreign secretary, said the important point was whether British interests had been served in Sierra Leone – given that an elected president had been restored at the expense of a mutinous coup.

"I find it impossible to believe Foreign Office officials were not given some mandate and that probably MI6 [the British secret intelligence service] was involved – I certainly hope so," said Lord Owen, erstwhile European Union envoy to the former Yugoslavia.

This is the sort of *real politik* Mr Cook may have to call upon to retain the support of his most senior cabinet colleagues, particularly if an independent inquiry finds that Sandline acted with official approval.

Certainly, the foreign secretary hinted yesterday he was not entirely unhappy with recent events in Sierra Leone. "Nobody should lose sight of the fact that the outcome of what happened was positive," he said.

Such an approach may be a requirement of high office, and one Mr Cook must adopt to survive. But it will disappoint numerous Labour voters and backbenchers – many of whom view foreign policy priorities with deep cynicism, and some of whom hoped Mr Cook would be different.

ARMS-TO-AFRICA: SEQUENCE OF EVENTS

March 1996 Ahmed Tejan Kabbah elected Sierra Leone president.
May 25 1997 President Kabbah deposed in military coup.
October 8 1997 United Nations security council imposes arms embargo on Sierra Leone.
February 1998 Liberal Democrat Lord Avebury writes to a Foreign Office official reporting allegations that arms were flown from Bulgaria to supply forces loyal to President Kabbah by arrangement [illegible]
March 10 President Kabbah returns to Sierra Leone. Foreign Office [illegible] Customs and Excise of allegations of illegal arms [illegible]
[illegible]
May 12 Foreign Office minister Tony Lloyd tells Commons that [illegible]
[illegible]
May 8 Customs publishes letter sent to Foreign Office on April 24 [illegible] Department approved arms exports to counter-coup forces.

Farmers warned they are falling behind in Europe

By Maggie Urry

British farmers are falling behind their European Union counterparts and losing their competitive advantage, the UK's National Farmers' Union will warn this week.

A strongly worded report from the NFU's economics department, to be launched on Thursday, will warn that complacency within the industry is dangerous. The report will prove controversial, since British farmers pride themselves on being more efficient than many farmers in mainland Europe, many of whom are small-holders.

"The truth is we are pretty efficient, but we're not dominant," said Ian Gardiner, policy director of the NFU. "We go from the super efficient farms, which are big employers, down to some pretty scrubby operations."

Mr Gardiner said there was no need to be despondent yet, but it was time for farmers to become more businesslike.

However, the report holds out the hope that efficient farmers will be able to capture a slice of the growing world trade in agriculture. Demand for grain in Asia, for example, is expanding and exceeds the region's ability to grow it.

The message is in line with many of the comments Jack Cunningham, the agriculture minister, made when he addressed the NFU's annual meeting in February. His blunt speech, in which he said farmers had to learn to live without subsidies, was met by hostility from many NFU members.

In an interview with the Financial Times last week, Mr Cunningham said: "We can't go on indefinitely subsidising production in this way. And what's more, if you look at farmers' incomes, you can see it hasn't worked. We have got to have a phased transition from where we are to where I think we should be. The status quo cannot endure."

He said: "We've got people in UK agriculture who are competing successfully, globally, now. It's not something which is unobtainable."

Mr Gardiner said overproduction had been regarded as "a bad thing", but if this surplus could be converted to exports it would be seen as "a good thing". That could remove "the albatross round our necks of public subsidy".

Sion Roberts, the NFU's chief economist, said currency fluctuations had created a boom and bust cycle for UK farmers, while French farmers had seen more stable incomes due to the "franc fort" policy since the 1980s.

However, excluding the effects of currency changes, he said, "when you look underneath you discover other countries in Europe are changing very quickly".

The report will be launched at a conference on Thursday entitled *Is UK Agriculture Competitive?* Lord Donoughue, farming and food industry minister, will address the conference.

Business hits at new limit on gas-fired power

By David Wighton, Political Correspondent

The government is heading for a serious clash with business over plans to extend a moratorium on new gas-fired power stations for up to five years to protect the coal industry.

Adair Turner, director-general of the Confederation of British Industry, the employers' group, has warned ministers that such a move would increase electricity prices, threaten thousands of jobs and alienate potential inward investors.

The proposal has also been criticised by the government's own energy advisory panel, which has privately dismissed claims that power generation could become over-dependent on gas.

Geoffrey Robinson, a finance minister, is pushing for an extended moratorium as part of a package of measures designed to safeguard the deep-mine coal industry. The CBI is fighting to persuade ministers to drop the plan, which it regards as old-style interventionism. Mr Turner yesterday called on the government to adopt a "market-driven" approach to energy policy based on competition between different energy sources.

He also warned about the impact of an extended moratorium on inward investment – about a third of the outstanding applications to build gas-fired stations in the UK are from US groups.

Last year the government announced a moratorium on new gas-fired plants while it conducted an energy review. The electricity regulator and the parliamentary trade and industry committee have urged the government to lift the moratorium once the review is completed.

Opponents of an extension claim it will block £3bn ($5bn) of investment bringing 15,000 construction jobs.

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NEWS DIGEST

INFORMATION TECHNOLOGY

Company offers £20m free software to schools

The government is close to announcing a £20m ($33m) deal to put state-of-the-art computer-aided-design software into all the UK's 6,000 secondary schools. Parametric Technology Corporation, the world leader in CAD software tools, has agreed to donate the software as part of a separate agreement with Warwick University's Warwick Manufacturing Group.

The government will present the deal as an extension of its programme to improve schools' access to information technology. Massachusetts-based Parametric was persuaded to make the donation during negotiation of a strategic partnership with Warwick Manufacturing to be announced this week.

The deal follows last year's takeover by Parametric of Computervision, creating the sixth-largest independent software company in the world. **David Wighton**

MOTOR INDUSTRY

Dealers face probe on prices

Carmakers and car dealers exhibiting at the UK's Fleet Motor Show opening today are expected to face tough questioning from fleet operators over their UK pricing policies.

Businesses, which account for more than 60 per cent of the 2m new cars bought annually in the UK, will have the chance to quiz Ford, Nissan, Peugeot, Saab, Fiat and BMW executives about the results of an undercover investigation by Sunday Times reporters posing as executives of a planned car supermarket chain.

Videotaped conversations with the six companies' executives record all but one admitting that prices charged are up to 40 per cent higher in the UK than elsewhere in the EU, and warning the would-be operation that manufacturers would not co-operate. **John Griffiths**

ECONOMY

Warning of interest rate rise

Interest rates may need to rise to bring the economy under control, according to independent forecasters using the Treasury's computer model of the economy.

In a report published today, the Ernst & Young Item Club predicts the government's failure to restrain rising incomes will mean retail spending continuing to fuel strong economic growth this year. But the strength of sterling will eventually drag down growth in 1999, bringing a ballooning current account deficit of £11bn ($18.4bn) and an increase in unemployment of about 200,000. **Richard Adams**

BUSINESS SURVEY

Profit-making town

Better known for its nursery rhymes and cakes than as a thriving local economy, Banbury in Oxfordshire, in central England, has been named the most prosperous town for business in the UK. An annual survey published today by Dun & Bradstreet, the business information consultancy, finds that Banbury has the highest proportion of profit-making businesses in the country. **Richard Adams**

INSIDE TRACK

MICHAEL SMITH
FILE FROM BRUSSELS

The fat cats show their claws

With their working conditions facing reform, EU staff are fighting back

To their detractors, they are the fat cats of the European public sector; under-achieving meddlers who are paid too much.

Naturally, the 17,000 staff members of the European Commission, the European Union's executive, have a rather different view. They see themselves as a civil service elite – the unsung heroes behind achievements such as the single market.

Among the reasons for their success, they say, are the 30-year-old staff regulations which determine pay, working conditions and discipline and underpin the way they work. But these regulations are now under threat – dismaying the bureaucrats to such an extent that they have taken industrial action.

The threat comes in the form of Erkki Liikanen, the former Finnish finance minister, now EU commissioner for personnel, who is preparing the next stage in reforms to the way the Commission and its staff operate. These changes come ahead of EU enlargement and the single currency.

Ten days ago the Commission's headquarters in Brussels was brought to a virtual standstill by a one-day protest strike by all six trade unions. No one is betting against further disruption, although the immediate threat of strikes has been lifted following weekend negotiations.

All this is over plans which have yet to be formulated, although the Commission is committed to giving member states a report on staff regulations by the end of next year and without a radical plan it may face a rough ride. The German Bundestag's budget committee is among those which has complained that Commission pay levels are too high compared with national civil servants.

Pay compares well with home civil servants in the 15 nations. Base salaries range from BFr897,600 (£15,000) for junior grades to BFr6.59m a year for a director-general – the top job below commissioner. On top of that, there are the allowances. A head of household gets 5 per cent of basic pay plus BFr101,470 for each child, and there are allowances for travelling to home countries. The biggest benefit is the extra 16 per cent paid to most officials for working outside their home country.

The trade unions say the Commission staff's real comparators are civil servants of member states based in Brussels who in some cases are better rewarded. Expatriates need compensation for factors such as the loss of income of the partners of civil servants who move to Brussels, says Loek Rijnoudt, president of the FFPE, one of the largest unions.

"We are the elite of the civil service. We have won through in highly competitive *concours* to get here and we are able to work in foreign languages. We are entitled to the money we get," he says.

But the reforms are about more than pay. Mr Liikanen says he wants to get the personnel policies right.

Few Commission employees deny that change is needed. For all his reforming zeal, Jacques Delors, Commission president from 1985-95, left the internal workings of the organisation largely untouched, even though his policies vastly increased its workload.

The ossified system that has remained in place over three decades often fails to reward good performers adequately, and leaves poor, even incompetent, staff in post for years without fear of demotion or dismissal. Red tape abounds and risk-taking is rare. Management acknowledges that it needs to increase its efforts to devolve more authority from the centre to individuals.

Carlo Trojan, the Commission's secretary-general, recently told staff that a "comprehensive debate" on modernisation should include issues such as training, motivation, job mobility, efficiency and, of course, "up-to-date staff regulations".

Neither he nor Mr Liikanen have elaborated on what is meant by "up to date". However, Tony Caston, a British Commission official and a former personnel manager at ICI, was recently asked to write down his views on personnel ahead of his retirement by Steffen Smidt, personnel director-general. His conclusions leaked out and the reaction was explosive.

In his paper Mr Caston talks of increased performance pay, sanctions for poor performers and reduced bonuses awarded for age and service. Mr Liikanen denied the paper reflected official thinking but refused to declare it "null and void" and the strike was called.

Buoyed up by what they say was strong support for the first strike, the unions question whether Mr Liikanen will be able to maintain the support of his 19 fellow commissioners if he adopts a tough line in future negotiations. So far there have been no public divisions among the 20 commissioners who run the Commission. Some senior officials feel Mr Liikanen has been heavy-handed, others say the unions may have used the biggest weapon in their armoury too soon and have drawn attention to the pay levels and conditions they are trying to protect.

Holding the first strike a day before a Friday bank holiday is also seen as a gaffe. It provided many staff with a four-day break but is unlikely to have won support from a public still deeply sceptical about the work effort of Commission employees.

PROFILE MICHAEL BLOOMBERG, FOUNDER AND CHIEF EXECUTIVE OF BLOOMBERG

Is it a mayor? Is it a god? No, it's Michael Bloomberg

The billionaire entrepreneur tells **John Gapper** about his unceasing drive, his possible political ambitions and his unusual succession plans

From the small glass-walled meeting room behind the desk of Michael Bloomberg, luminous orange and blue shapes can be seen moving against grey backgrounds. The larger shapes are huge tropical fish swimming lazily in tanks; the small ones are figures flickering on Bloomberg screens.

The owner of the fish and the figures pauses briefly in the middle of a stream of thought about why his competitors will probably fail, and sniffs the air quizzically. "I can smell Chlorox, or something. They must be cleaning out the fish tanks," he mutters.

Not many chief executives of companies with annual revenues of more than $1bn (£625m) would concern themselves with the mechanics of fish tanks. But Mr Bloomberg likes detail. The Bloomberg screens on his desk show the calls from customers, and how long they are kept waiting.

At 56, he shows no sign of allowing either his business or himself to slow down. There are 94,000 Bloomberg terminals in the offices of fund managers and brokers around the world, a figure he says is growing at 30 per cent annually. At $1,200 (£750) per terminal a month, it is a thriving business.

Yet in spite of a prolonged bull market that has made Mr Bloomberg rich, and disarray among old competitors such as Telerate, he remains restless. "You are damn right it keeps me awake at night," he exclaims as he discusses Telerate. "If you don't keep improving, someone else will clean your clock."

Mr Bloomberg's own database has shown him some frightening information. "No company in history has gone on forever. It's scary," he reflects. "Of the Fortune 500 when we started the business in 1981, only 160 are left. Some merged, some went out of business, some got smaller."

But Mr Bloomberg manages to combine professional paranoia with a large helping of self-confidence about his company's power. "The thing I really have to worry about is whether everybody else – even though they are inferior – may be getting adequate," he says dismissively.

After 17 years, Mr Bloomberg has seen off his first rival, Telerate. The recent sale of the business by Dow Jones, the parent company of the Wall Street Journal, to Bridge, the financial information group, was an admission of defeat after years of under-investment and passivity. Even Reuters, the dominant company in the market, has suffered a setback with a New York grand jury inquiry into whether it illegally tried to copy Bloomberg data. "If any of the allegations are true, they tried to copy a little guy in New York. Why?" asks Mr Bloomberg.

He says that even if Reuters managed to replicate Bloomberg's US bond data, it could not imitate its analytical tools. "In theory, everything is possible – but I could go and paint the Mona Lisa in theory. In theory, a human being with a brush did those strokes," he says.

These are good times to be Michael Bloomberg. Seventeen years after an ignominious exit from Salomon Brothers, his name is everywhere: on his terminals, his news wires, his radio and television stations. There is even talk of him becoming the next mayor of New York City.

"Oh, you think about everything. You think about being president, and God, and Queen of England.

'In theory, everything is possible – but I could go and paint the Mona Lisa in theory'

Mayor would be a great job, but would I do it?" He ruminates. "I don't know, I'd have to think long and hard about that. My guess is I would not. But do I rule it out? Of course not."

If Mr Bloomberg had stuck simply to bond analytics, he would hardly be so well-known. Yet he might be even richer. His network of 900 reporters to provide news is expensive enough. But the radio and television services are a positive luxury.

"I believe we get value out of it. We don't make money yet but we are heading in that direction, although God knows when we'll get there," says Mr Bloomberg. Yet he is happy to have his name – and his brand – spread across the world on 10 television networks in eight languages.

Yet even as the Bloomberg name spreads globally, he is ambivalent about whether he wants it to endure. Other media moguls – such as Rupert Murdoch – may plan for [their] children to succeed [t]hem. Yet [Mr] Bloomberg positively recoils at [the] idea that one of his two daugh[ter]s should do so.

He recou[nts] a story of family disputes amo[ng] the Coca-Cola heirs with obvio[us h]orror. "I don't want that for m[y k]ids. Not a chance. And I don't [want] them running the company. It [sh]ould go to the best person, not [th]e person that happens to have [th]at pre-natal intelligence," he s[ays] firmly.

His solutio[n i]s unusual. He has written into [his] will that his business should [be] sold within two years of his [dea]th to the highest bidder. "I don['t h]ave any problems with someone[els]e owning it. Do I even care if [the] name stays the same? Maybe [it] will, maybe not. What's the diff[ere]nce?"

There is a [fur]ther twist. Mr Bloomberg's wi[ll al]so names a person within his [com]pany who will become its chi[ef ex]ecutive for six months. "Then [the] directors] can do as they dam[n w]ell please," he says. "You can[not] run the company from the [gra]ve, but I don't want chaos if I g[et h]it by a truck.

"I have a succe[ssor] designated in my will. I change[it] at once, and I might even go [ba]ck to the first person," he says. [Acc]idents aside, he says he will [eve]ntually slow down and appoint [a d]ifferent chief executive. "I wou[ld l]ove to have somebody that I a[m se]nt be better than me," he says.

Whether such a t[hin]g is possible is a question he mu[lls a]t length. He says he is irreplace[able] as the public face of the com[pan]y. "I could literally walk up to [a] crowd anytime, and speak for [as lo]ng as you like, and they would [lik]e it. That function will go away [wh]en I die," he says.

Yet he says someon[e m]ight be a better manager. "W[hy] do we assume that I am a [gre]at chief executive? I really be[liev]e in my ideas, but maybe som[ebod]y else's would be better," he [says], as he lists his rules to preve[nt n]epotism or favouritism, and ens[ure] that all employees work as a te[am].

So far he shows no sig[n] of stepping down, or slowing d[own]. "I am scared to death. I am p[aid] to be scared to death. I am su[ppos]ed to run harder every day. We['re] doing all the things we can. I d[on't] know of anything we can do w[e'r]e not doing," he replies, when [ask]ed if life feels good.

Yet even Mr Bloomberg [ad]mits that it is hard to find much [to] keep him up at night. "I had a m[iser]able meal last night at a fancy [res]taurant. Terrible! Terrible! Th[e f]ood was not very good, and outr[age]ous prices. But really, that is the [wo]rst thing that's happened in th[e l]ast two weeks".

THE ESSENTIAL GUIDE TO MICHAEL BLOOMBERG

Fame in finance: Michael Bloomberg has become the best-known figure in the world of financial information by creating from scratch a business that now rivals Reuters in supplying pricing data and analytics to traders and investors.

Mr Bloomberg's entry into the business came in 1981 when he was forced out of Salomon Brothers, the Wall Street investment bank, where he had first headed equity trading and sales and later took charge of the company's technology.

The innovation in his approach compared with Reuters was to establish a proprietary network that supplied crucial data and analytical tools for US bond market traders and investors in what was an unusually easy-to-use form.

His operation, founded with a group of four former Salomon employees, was called Innovative Market Systems before it was later renamed eponymously. Since then, the Bloomberg brand has grown into a family of businesses.

Education and career: As recorded in his 1997 autobiography – called *Bloomberg by Bloomberg* – he was born in Medford, Massachusetts in 1942, on Valentine's Day, and was was educated at Johns Hopkins University and Harvard Business School.

He worked his way up through Salomon Brothers to become one of the company's general partners before his exit when Salomon – now owned by Travelers Group – sold out to the commodities trading company Philbro in 1981.

Branching out: Since its foundation as a supplier of bond market data, his company has branched out into supplying equity data and news, launching a radio offshoot in 1993 and a television service during 1994 which have raised his public profile. Mr Bloomberg owns 80 per cent of his business, and the rest is held by Merrill Lynch.

Ambitions: He has indicated that he may run for mayor of New York when Rudolph Giuliani, the current mayor of his home city, reaches the end of his term.

LUCY KELLAWAY

The simple truth about knowledge

The latest 'big idea' is just common sense, or it would be were it not for the information management industry complicating matters with mumbo-jumbo

There are two things that the beginner needs to know about knowledge management. The first is that it is *the* big idea of the late 1990s. The second is that KM (as those in the know call it) is just common sense. It simply means that companies should pool all the information and ideas that are shut away in employees' heads, filing cabinets and databases and gather them for general use.

Nothing too complicated about that. Yet this idea has attracted more *mumbo-jumbo* than any other management topic I can think of – and that is saying something.

Next month the knowledge industry has its annual knees-up: a four-day conference organised by the Innovation Knowledge Opportunity Network. The knowledge experts will gather to tell you everything about KM. Yet if the programme is anything to go by they may not succeed in imparting much knowledge.

Implementing A Framework For Gaining Organisation Commitment to Knowledge Programmes is the title of the lecture to be given by the knowledge guru at International Business Machines. The head of knowledge management at British Petroleum is to talk about Leveraging Global Expertise For Tangible Business Results: Reflections From A Knowledge Management Practitioner. An executive from SE Banken will be offering tips on Building Transferable Team Expertise and Team Experience By Capturing Key Learning Points and Creating Shared Contexts. The knowledge management manager from British Telecommunications will talk about Facilitating Virtual Teamworking Across Global and Cross-Functional Boundaries To Overcome The High Cost Of Face To Face Interaction.

You get the picture. Even the price for this event is complicated: £2,454.58. For free I can tell you something more useful. The first step to knowledge management – or to management of any kind – is to keep it simple.

***

Would you buy a salty pretzel covered in white fudge? Nestlé has sent its market researchers scurrying round asking shoppers this question and discovered that 83 per cent said they would. Consequently the company is about to launch Pretzel Flipz and has every hope that it will be a hit.

If anyone at Nestlé reads the current issue of Harvard Business Review they may be put out to learn that this type of market research is a waste of money.

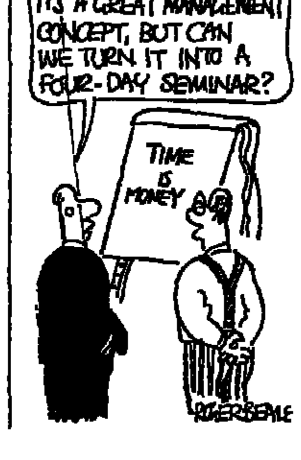
The reason is not any of the usual ones given for the failure of market research – that the sample is skewed, the questions misleading or that consumers lie. HBR has discovered that we shoppers do not know our own minds. Especially when it comes to new products. There is no point in asking us what we might buy in future as we don't have the first idea.

According to HBR, market researchers would get more reliable answers if they put us in the right frame of mind by asking questions about our snack buying habits in general. But I wonder if that would work any better. I never have any idea exactly what I am going to buy until it is in my shopping trolley, and I will react differently to the same special offers depending on my mood. Shoppers are not consistent rational people: I can swear blind that I'd never buy candy-covered pretzels one minute and be hooked on them the next.

***

Poetry is in. Management is in. Both these dubious views have been put forward over the past few years, and now we have a brave attempt to put the two together. Professional Manager, the journal of the Institute of Management, is inviting its managerial members to send in their attempts at verse. It has also asked them to supply their favourite poems about management.

The mind boggles at the thought of the mail bag. Managers these days are supposed to be creative – but it is doubtful whether their creative talents run to the rhyming couplet. Martin Taylor, the head of Barclays, used to be a dab hand at poetry in his student days, but most of his fellow managers would be better advised to leave the pen alone.

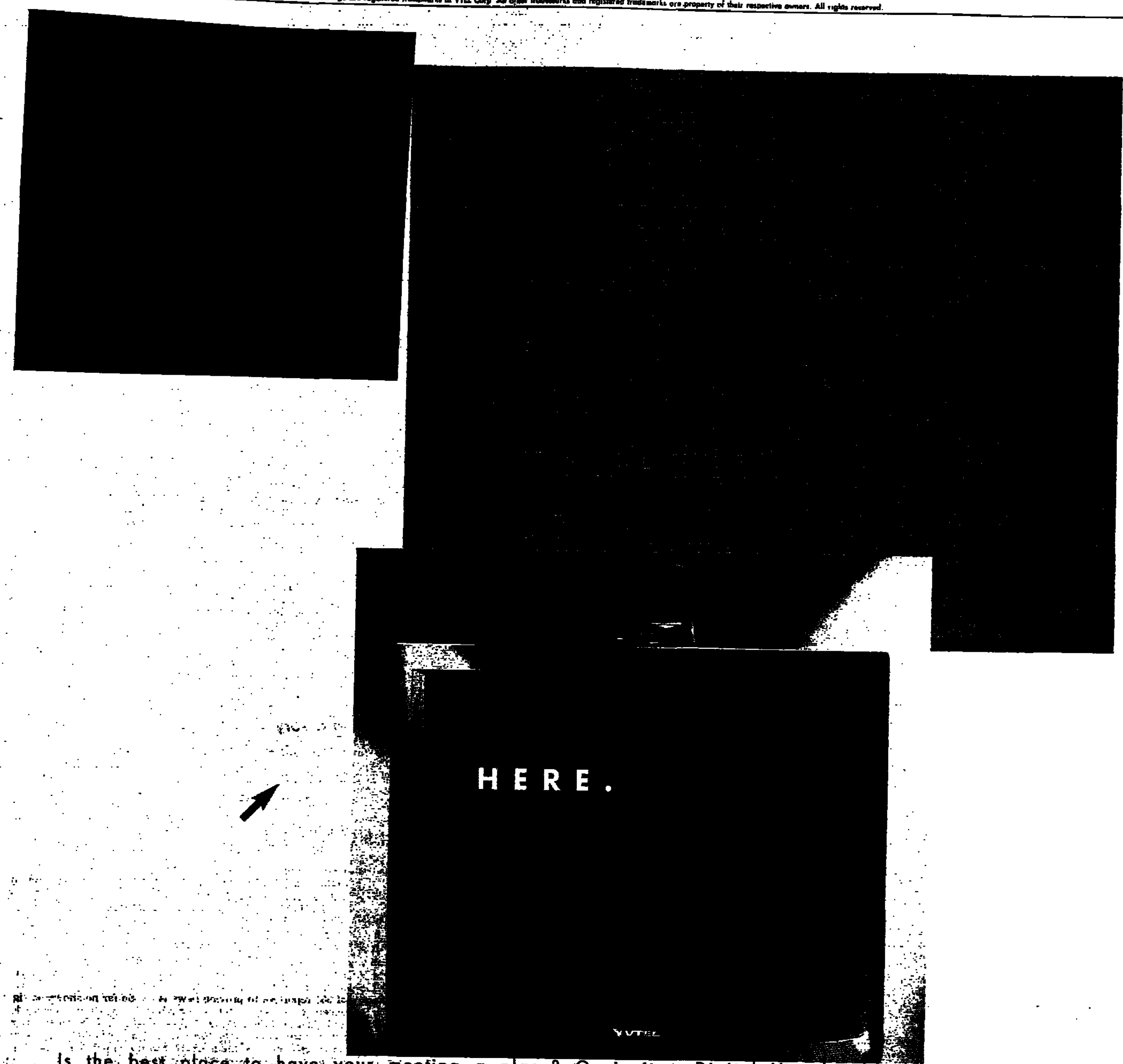


This does not mean that management is an unworthy subject for poetry. On the contrary, the themes of power, money and the us-and-them side of the job make it a natural. Yet there are few well known poems about it, perhaps because poets are among the few people who have no experience of either managing or being managed.

This did not stop W.H. Auden, who in the 1950s tackled the subject head on. In *The Managers* he compares the colourful carefree bosses of the past to the new generation of "quiet men, working too hard in rooms that are too big" eating "A neat little luncheon of sandwiches...Far into the night their windows burn brightly..."

Management, according to Auden, is a calling, and managers do the job because getting decisions right is its own reward. Yet for all that, managers remain distant, unloved figures. "No one is really sorry for their/Heavy gait and careworn/Look, nor would they thank you if you said you were."

These views are bang up to date. Many people write the same thing now – the only difference is that they take a whole dreary book to say it.



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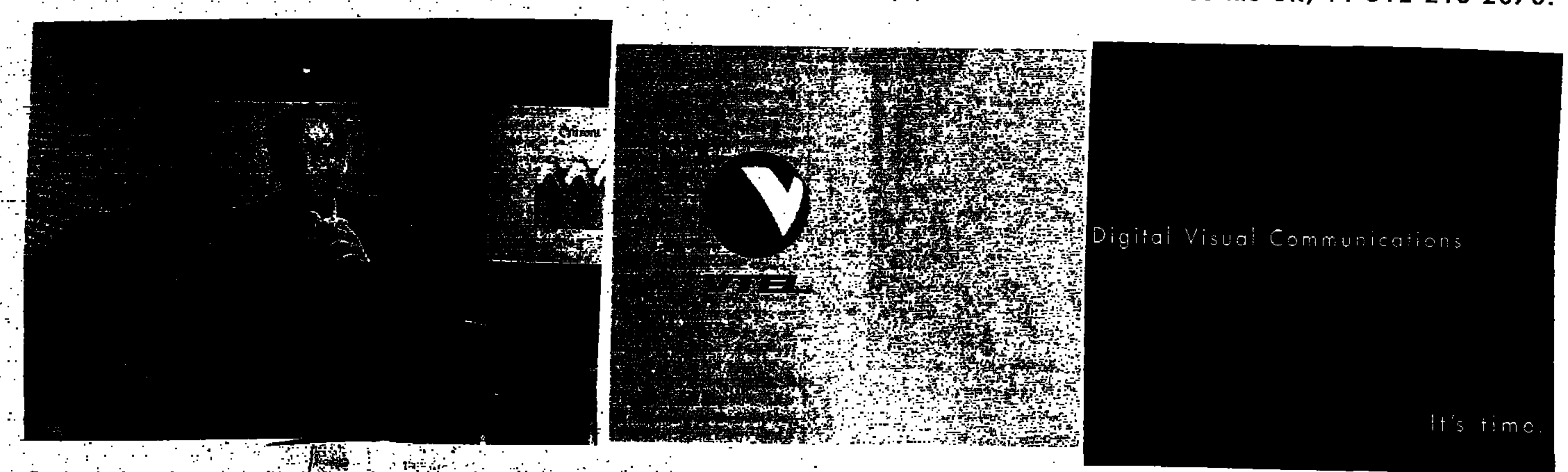

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MARKETING CONSOLIDATING BRANDS

The conundrum of maintaining image

Alison Smith on whether the brands of merging companies should also be united

The giant neon red umbrella flashing outside the New York headquarters of Travelers Group is a vivid symbol of the effort that has gone into creating the logo of the financial services group.

Yet since the announcement last month of the merger between Travelers and Citicorp banking group to create the world's largest financial conglomerate, a combined brand image has been in use. It uses the style and colours of Citicorp's logo for the newly named Citigroup, and incorporates a small red umbrella.

A week later, when BankAmerica and NationsBank announced they were coming together to form the first coast-to-coast bank in the US, they said that both brands would remain in use, at least for the time being.

The contrasting approaches illustrate the options open to companies when a deal raises the question of whether brands as well as organisations should be brought together.

A recent study by McKinsey, the management consultants, concluded that only one in five attempts to consolidate brands resulted in the combined brand maintaining the market share of its two predecessors.

Trond Riiber Knudsen, co-leader of McKinsey's European marketing practice, says the process can be particularly tricky in sectors such as finance, transport and energy where senior executives have not been as convinced of the importance of branding as their counterparts in consumer goods companies.

"Traditionally, top management in banking have not focused enough on the value inherent in the brands or companies they buy. They tend to be a bit macho in switching to their own brand overnight."

As an example of how not to consolidate brands, McKinsey cites the way Mars handled the ending of the Treets chocolate brand as it switched to M&Ms in 1986. It says the project was not backed properly by market research, and that consumers were not given enough warning.

By contrast, the study says that Mars' phasing out of the Raider brand in favour of establishing Twix as the global brand for that type of bar involved extensive warning for customers, and was successful.

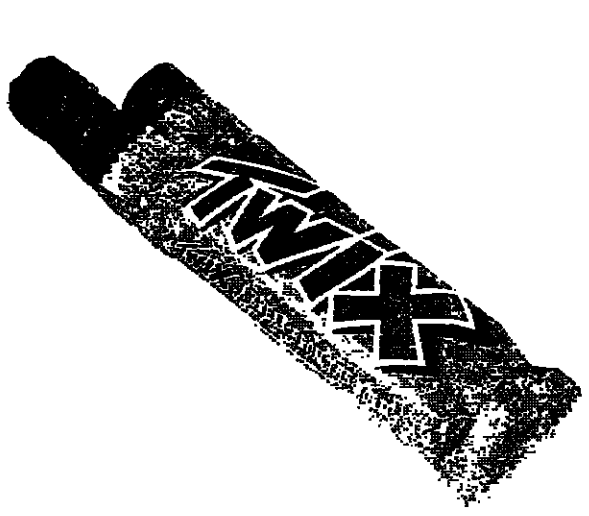
The research identifies three routes to effective brand consolidation:

- Phasing out a brand over time. This works well when the brand to be ended has many loyal customers who will continue to buy it so long as it is available.
- Quickly changing to one brand. This is more difficult, and works only in cases when a degree of control – perhaps over distribution as well as in terms of advertising and promotion – can be exercised during the changeover.
- Co-branding to manage the transition. This is the most common approach, and gives all those involved with the brands time to adjust. In 1989, for example, Whirlpool bought the Philips domestic appliance division and both brands were maintained for several years. McKinsey says this example, supported by extensive market research and building on the old brands' chief strengths, shows how brand consolidation may succeed.

The solution, Mr Knudsen says, can vary between different companies and markets. "If you are a big consumer goods company, you have to think differently in terms of eastern and western Europe. Typically, in Russia and Poland there are a large number of brands because there are international brands targeting the most affluent 10-15 per cent of consumers, and local brands maintained by multinational consumer goods companies for the rest of the market. But in western Europe the segments tend to blur, and fewer brands can be supported."

He adds that some companies need to find different answers according to their different product lines. "In perfume, for example, there is definitely room for many brands, but in other, more basic, categories that is not the case.

"It is dangerous for a company to have only one branding model in its head."



Sticky problem: Twix was signalled loudly as Raider's replacement

Getting their heads together: an operating team using visual display helmets during an operation

TECHNOLOGY SURGERY

Closer to the cutting edge

Routine hip replacement operations may soon be carried out by robots as computers increase the accuracy and efficiency of surgery, reports **Vanessa Houlder**

Surgery is in the grip of a technical revolution. "It is no longer blood and guts," says Richard Satava, professor of surgery at Yale University. "It is bits and bytes. That is the key to the future of medicine."

Advances in computing, communications and video techniques are changing the way surgeons work. The need for surgeons to stand for hours over the operating table, straining their backs and eyes as they cut and sew, may soon be over.

The next phase of development is likely to embrace image-guided therapy, virtual reality and robotics. Most of these techniques are building on laparoscopic or "keyhole" surgery, which has rapidly increased in scope since it was introduced in the 1980s.

This technique, which uses special elongated instruments and a miniature camera placed inside the patient's body, is far less invasive than traditional methods. It reduces pain, costs and the length of hospital stays.

Vista Medical Technologies, based in California, has launched a visual display "helmet" for surgeons. The equipment, adapted from a helmet developed for fighter pilots, converts information from the camera inside the patient's body into a three-dimensional image and projects it on to two tiny display screens, one for each eye.

The devices can greatly improve the vision of surgeons performing keyhole surgery, who currently rely on a two-dimensional image on a monitor.

The disadvantage of a miniature camera is that its field of vision is often extremely small.

That has led to the development of image-guided procedures in which the surgeon uses scanning equipment to visualise internal organs. Companies such as Fonar Corporation of New York and General Electric have developed magnetic resonance imaging scanners that allow the surgeon to operate while viewing a detailed electronic image of the patient.

Scanning technology is also being used in conjunction with virtual reality, a computing technique that presents an illusion of a three-dimensional world. Prosolvia Clarus, a Swedish company, has developed training software that allows doctors to work with data from imaging techniques such as magnetic resonance, computer tomography and ultrasound.

These scanning data are converted into a virtual model of the patient's anatomy and organs. That can be used to plan and practise the operation – and to train other surgeons.

In another training innovation, engineers and surgeons at the University of Washington have developed technology for precisely measuring the forces and torques involved in various surgical procedures. These measurements can be programmed into training simulators to give medical students the "feel" of the operation.

Some robots are designed to operate with greater precision than a surgeon

Training techniques such as these are needed because there is a limited number of ways in which trainee surgeons can practice. Plastic models lack realism, the use of animals is increasingly unacceptable and there is a limited number of cadavers available for training.

At the same time, new surgical techniques increase the need for training. Following the introduction of keyhole surgery, there was a number of errors as a result of insufficient training, which prompted general concerns about its effectiveness and safety.

The controversy about keyhole surgery underlines the difficulty of introducing radically new technologies where matters of life and death are concerned. That raises a question about the acceptability of an even more radical innovation whereby robots, rather than surgeons, would wield the surgical tools.

Surgical robots are already being developed. Some are designed to remove the tedium of a routine task such as holding the laparoscopic camera. Others are designed to perform operations with greater precision than a surgeon.

US companies such as Computer Motion, Intuitive Surgical Devices, MicroDexterity Systems and Brock Rogers Surgical are developing surgical robotic arms. These allow the surgeon's movements to be scaled down for delicate and precise procedures. They also compensate for the surgeon's tremor. According to MicroDexterity Systems, based in Nashville Tennessee, the goal of robotic arms is "to accomplish for the surgeon's hands what the microscope has done for his visual capabilities".

Alexander Arrow, vice-president of Wedbush Morgan Securities, based in Los Angeles, believes there are no serious barriers to their acceptance. "When confronted with a technology that makes a surgeon more effective, the medical profession would not have any long-term resistance," he says.

Another factor that may encourage the development of this sort of robot is the military's interest in telesurgery. The concept of being able to control robotic arms from a distance is being investigated by the US Department of Defense, which wants to develop remote-controlled robotic surgery for wounded soldiers on the battlefield.

But in the short-term, the largest market may be in orthopaedic surgery. That is because robots are well suited to the exacting task of precisely drilling through bone.

Robodoc, a robot made by Integrated Surgical Systems, based in Sacramento in California, has been sold to 14 hospitals in Europe. The robot can drill bones to prepare for hip and knee replacements with greater accuracy than humans. As a result, the implant is less likely to wear loose, which may save patients from a second operation.

Mr Arrow believes Robodoc's uptake will be fuelled by patient demand, much as the use of minimally invasive surgery was driven by requests from patients.

In his opinion, public anxiety about robots working in operating theatres may be overcome quickly. Within 10 years, he forecasts, it may well be standard practice for robots to carry out hip operations.

This is part of a continuing series on medical technology

TIM JACKSON
ON THE WEB

The golden code of e-commerce

Certain businesses may be forever incapable of crossing the great divide from traditional to web retailing

How easy is it for a traditional retailer to switch its business to the internet? And how much is a brand name established in the world of billboard and television advertising worth when it comes to electronic commerce?

Thousands of investors must have asked themselves these questions during the last few weeks as they watched the share price of K-Tel International soar from less than $10 on April 12 to nearly $80 last week.

Until a few weeks ago K-Tel was a well-known retailer of recorded collections of popular and easy listening music through traditional direct advertising channels, particularly radio and late night television. But on May 1, K-Tel opened its music retailing web site and announced that its future was on the internet.

Although there are more than 60 music retailing sites already on the web, investors piled into K-Tel's stock in the belief that the company's solid brand name would pay off richly in e-commerce.

K-Tel is not the first company to attempt the transition from bricks and mortar or direct marketing to e-commerce. After Amazon.com demonstrated the success of book retailing through the internet, Barnes and Noble, the largest US book chain, set up a competing web site. More radically, Egghead, a retailer of computer software, closed all its stores and replaced them with a web site.

A slew of companies with established brands in different businesses, from cigars to perfumes, have taken the same route. They have assumed that their brand names will benefit them in e-commerce as they have in regular commerce. And since the web offers retailers a vast new sales opportunity, the argument goes, extending their brand to the world of electronic commerce makes sense.

Many are in for a shock. The internet has its own retailing rules. Rule one: Don't try to sell products that customers want to touch or smell before purchase. Forget trying to sell cashmere coats, perfumes or aromatic cigars unless the customer has bought the product before or truly trusts the brand name. Goods that require careful viewing are also problematic. Would you buy an engagement ring off a computer screen?

Rule two: shipping and postage costs must be a reasonably low proportion of the purchase price. That favours goods with higher value, smaller size and lower weight. Books are fine, cheap canned food less so.

A more subtle point: the ideal e-commerce business should also have more to offer than its non-web counterparts. The online bookstores allow their customers to search by topic and theme in a way that physical bookstores cannot, and they offer larger selections.

The final rule: remember that the typical web surfer is still predominantly young, white, male, and computer orientated. That is why software retailers have fared better than art galleries.

So where does this leave K-Tel and its stratospheric stock price? It passes the product rules: K-Tel sells compact discs, which do not require touching or smelling before purchase. The shipping cost of a CD compared with its price is reasonable (it is small and light).

With its roots in direct marketing, K-Tel can exploit the inventory management advantages of a web business without having to close physical shops. Moreover, the web offers K-Tel an advantage over its non-internet competitors: you can listen to songs over the internet before purchase, and even compile a customised CD of your favourite songs. So K-Tel's business seems well-suited to the web.

But there is a marketing problem. K-Tel will promote its web site alongside the existing toll-free phone numbers in traditional television and radio. That is a good start: traditional media can certainly help.

A physical brand on its own, however, does not guarantee success on the web. Most visitors to web sites do not arrive by typing the address into their browser. Rather, most "hits" come from visitors clicking on links from other sites.

That is why advertising on the web itself matters so much: it is the only way to deliver customers directly to the sales counter. Traditional advertising and brand building cannot replace web advertising. It is not enough to tell customers how great your shop is; you have to show them how to reach it.

It should come as no surprise that Netscape, whose web site is the default start page for millions of web browsers, this week signed a deal with Excite, another internet company. Excite agreed to pay $70m (£42m) for exposure on Netscape's web site, which George Bell, Excite's president, described as "perhaps the last piece of undeveloped real estate on the web".

And K-Tel? For all its radio and late night TV adverts, K-Tel may not have the funds to pay for exposure on the most heavily populated web venues. CDNow and Music Boulevard, its rivals, do.

tim.jackson@pobox.com

Brazil plans to slow fall in value of Real

INSIDE TRACK

BUSINESS TRAVEL BOSNIA

A welcome back to Sarajevo

The appearance is worse than the reality for visitors, says **Amon Cohen**

Bosnia has its problems but – contrary to its bellicose image – safety is not one of them. I have walked late at night through both Sarajevo and market towns in England and the latter are altogether more dangerous, especially when the pubs close.

Almost every street in Sarajevo has ruined buildings with honeycombs of bullet holes as macabre mementoes. However, the appearance is worse than the reality. Sarajevo has been at peace since the beginning of 1996 and there is minimal likelihood of war breaking out again while SFor, the international military force, maintains its heavy presence.

Sarajevo is also surprisingly free of crime, considering its unemployment rate is 85 per cent. The Bosnians are proud, dignified people and, in spite of the poverty, I saw far less begging than in London. Expatriates say muggings are virtually unheard of: the only problem is car theft.

Instead, the perils faced by the traveller are random ones. Undiscovered mines remain a problem, though less so in the city centre. Only walk where you are sure others have already been, says Trevor Holburn, general manger of the Sarajevo workshop of Crown Agents Autoservis. Grassy areas and disturbed pavement should therefore be given a wide berth and even greater vigilance is required outside the city.

"Don't go wandering around villages and stick to footpaths. Near the former front line, don't step off the road at all – not even by inches," says Mr Holburn.

The other danger is Bosnian drivers. Their poor reputation is deserved: my taxi crashed en route from the airport. The driver was unable to stop when he saw two Mercedes drivers who had stopped in the middle two lanes for a chat.

Such incidents are not uncommon, which is why Mr Holburn recommends that visitors who rent a car also hire a driver, especially if travelling outside Sarajevo.

These concerns aside, Sarajevo is now surprisingly comfortable for the visitor.

It is excellent for both food and drink, with no shortages of either. Vegetarians, pig-lovers and those who abhor cigarette smoke will not find life easy, but for the rest, the restaurants and cafés are excellent and cheap. It is difficult to pay more than DM30 (£9.90) for a meal, while a beer costs DM2-3.

Transport is also easy. There is a comprehensive tram network, but most visitors use the plentiful, inexpensive taxis. Access to the city by air is improving, with Lufthansa becoming the latest airline to start operations. Understandably, the much-shelled airport terminal is in a terrible mess, but it is being rebuilt and my arrival and departure were flawless.

Safer scene: Sarajevo is now surprisingly comfortable for the visitor Magnum

Even telephones work pretty well – better, certainly, than in some former communist nations. Ericsson has built a mobile telephone network, which works fine within Bosnia, but I found it impossible to access from outside the country.

Hotels still have room for improvement. I stayed at the former Holiday Inn, which is in the process of regaining its franchise. Fully restored after being in the front line, it has 338 spotless rooms and the staff speak good English. Ex-pats also recommend the Hotel Bosnia.

In short, travelling to Bosnia is no longer problematic. There is security for investors as well as travellers: guarantee agencies set up by the World Bank and the European Union ensure foreign companies will get their money back if war resumes.

What is more likely to deter business travel is the poor financial health of the country. Industrial output, according to the World Bank, is at 20-25 per cent of pre-war capacity and the financial and legal infrastructures are in disarray, the war having interrupted the transition from a communist to a capitalist economy.

Privatisation has been slow but, says Mr Holburn, "it is definitely getting better. They are talking more sense and putting a timeframe on the process". Once it is firmly under way, Patrice Dufour, World Bank senior operations and information adviser, believes foreign companies will start to arrive in large numbers.

For anyone wanting to invest in Bosnia, the advice from existing businesses is find a good local lawyer who understands English and can sort out knotty procedures. Expect to pay western-type fees.

The second tip is to employ a local bookkeeper who can satisfy the stringent (but scrupulous) financial police and understands archaic Yugoslav practices that have not yet been dismantled. It is illegal, for instance, to make payments of more than DM100 without putting them through ZPP, the state clearing system.

"This is not the easiest place in the world to work but at least there is almost no corruption. There are a lot of opportunities," says Mr Holburn.

KEY FACTS FOR VISITORS TO THE COUNTRY

Airlines:
Lufthansa flies Mon-Fri from Munich.
Austrian Airlines flies daily from Vienna.
Swissair flies Mon-Fri from Zurich.
Air Adria flies daily from Ljubljana.
Croatia Air flies two to three times daily from Zagreb.

Hotels: (telephone nos preceded by code +387 71)
Holiday Inn (call your local reservation's number or 664 273 direct) charges DM250 a night Mon-Thurs plus DM100 for a second person.

Car hire:
Crown Agents (667 958) rents 4x4 cars for DM200 a day and a Golf or similar for DM150 a day. A driver costs DM70.

Restaurants:
Try the New Concept Club at Cekalusa 63 (668 526), Hodzic at Bravadziluk 34 and Lovac at Petrakija 24 (664 176).

Facilitation:
For help with starting business in Bosnia, Resolution Partnership is run by two former British soldiers. (667 522 or +44 171 872 5478).

Payment:
Cheques and cards are not accepted. All payments should be in cash with D-Marks.

TRAVEL UPDATE

Asia leads hotel room summer sales

Business travellers with a taste for luxury have a chance to indulge themselves from next month as hotels' annual summer sales begin.

Summer discounts are a worldwide event, driven by most of the leading chains. The best deals are in Asia, thanks to the weakness of the Malaysian ringgit and the Thai baht against sterling.

Hong Kong is also offering inexpensive rates. Worth looking at are the Hilton, Westin, Marco Polo (cuts of up to 65 per cent), Hyatt, Ritz Carlton and Peninsula. Hilton prices in Bangkok have been cut by 50 per cent.

Some hotels offer free services, rather than reduced rates. The Mark in New York, a Rafael property, has done both: it has reduced its rate for a de luxe double from $405 to $285 (£171) from June 26 to September 7, and has thrown in free breakfast, a T-shirt and a shuttle service to the theatre district at weekends. The price for a suite has also been cut from $675 to $395.

Luxury Asian hotel group Mandarin Oriental is including breakfast, a newspaper and double bonus awards with eight airlines at its 12 properties. In London, Sheraton has cut its rates at its three properties between June 28 and September 1. Standard rooms at the Park Tower go down to £195 from £280; at the Park Lane to £150 from £255; and at the Belgravia to £165 from £280.

Some 240 Holiday Inns in 170 locations in Europe, the Middle East and Africa are offering rates at least 10 per cent lower than normal between June 28 and September 12.

Gillian Upton

IN BRIEF

BA tracking card needs refinement

An experiment in which passengers flying from London Gatwick were tracked electronically in an effort to reduce flight delays has proved only a partial success. British Airways customers checking in at the airline's terminal at Victoria Station in central London before catching trains to Gatwick were issued with smartcards carrying information similar to that printed on their boarding passes. These cards were read automatically at passport control and at four points on the way to selected gates, so that staff knew travellers'whereabouts.

However, BA wants to refine the technology before pushing ahead with the idea. When two passengers were walking together, it was discovered that the automatic readers sometimes became confused.

Kept in reserve

Hotel rooms in Britain can now be held automatically for regular corporate customers under a system just launched by BTI UK Hogg Robinson, the business travel agent. Clients' booking patterns are analysed and the accommodation they are likely to need is held in reserve until 24 hours before check-in. The company has set up a dedicated call centre to handle domestic hotel bookings and guarantees written confirmation of reservations within two hours. The service operates on weekdays from 8am to 6pm.

No smoke routes

Alliance partners Northwest Airlines and KLM are to ban smoking on all services to and from Japan from August 1. The two carriers have already banned it on all other routes. Philip Haan, Northwest's senior international vice-president, says: "A majority of our Japanese customers are now requesting smoke-free flights."

Language guide

How do you tell a doctor in Turkmen that you suffer from asthma? What is the Uzbek for "where's the toilet"? The answers are in a phrasebook from Lonely Planet ($5.95/ £3.99). It provides a guide to the basics in six central Asian languages and the barest essentials in 10 others.

Roger Bray

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	21	21	22	23	24
Hong Kong	31	30	30	31	31
London	25	26	26	24	24
Frankfurt	28	28	25	22	21
New York	15	18	24	22	22
Los Angeles	20	17	17	20	21
Milan	29	29	29	27	25
Paris	28	28	27	25	23
Zurich	28	28	25	24	21

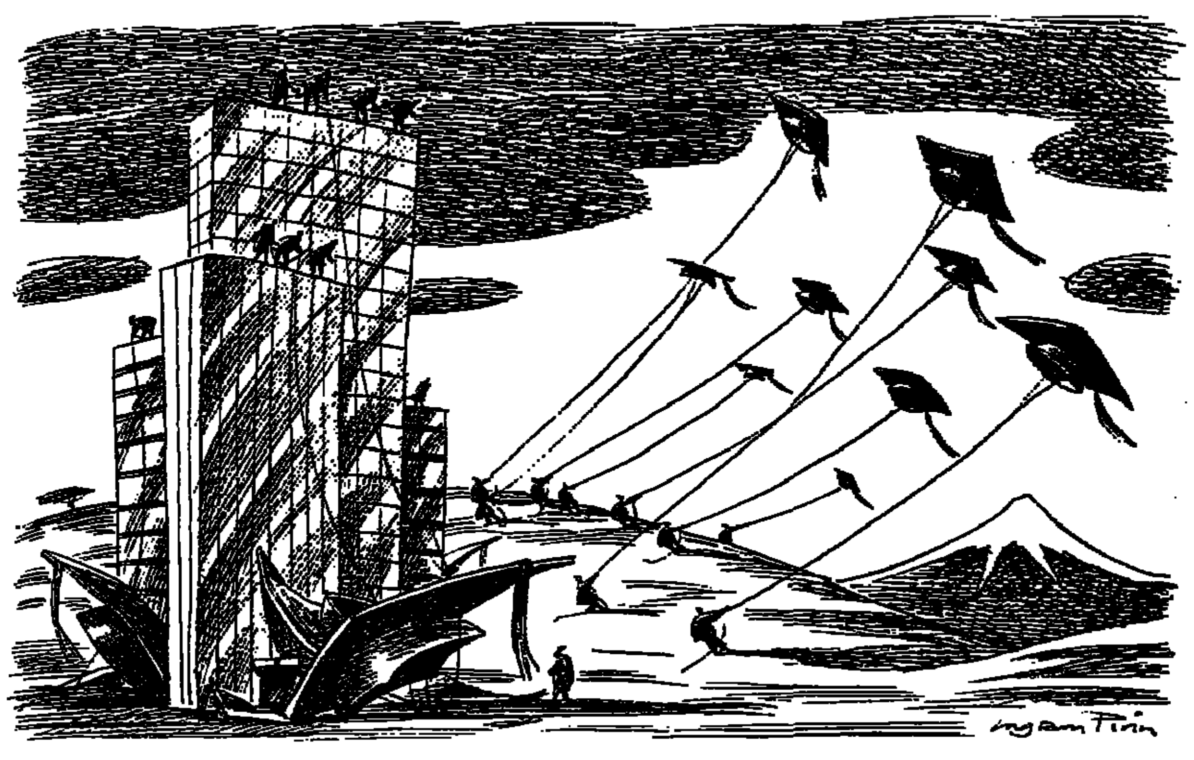
Information supplied by PA WeatherCentre. Maximum temperatures in Celsius.

omo deal per row

JAPANESE TRAINING TRENDS

Eliminate the general, accentuate the special

Knowledge-hungry young managers have to finance their own MBAs, writes **Bethan Hutton**



Severe economic pressure and advancing deregulation are forcing some Japanese companies into a greater acceptance of western-style management practices. But at a time when management expertise is at a premium, Japanese companies are sending fewer employees to study business and management techniques overseas.

Japanese companies have a long tradition of breeding generalists rather than specialists: this year's manager of the export department is often next year's head of personnel. But in the new, genuinely competitive business environment, both companies and individuals are realising that in order to survive, each member of staff needs to be a high performer in his or her job. Increasingly, staff need specialist knowledge and qualifications, which have never before been a priority.

The widespread lack of transferable qualifications in the Japanese financial sector was highlighted by the collapse of Yamaichi Securities late last year. Recruiters were flooded with applications from Yamaichi staff, but one Tokyo-based headhunter said the majority were unplaceable: the only specialist knowledge many middle-aged ex-Yamaichi employees seemed to have was how to navigate the maze of internal company politics.

There is increasing demand for qualified personnel, particularly those with western MBAs. But many companies are now reluctant to pay for their own employees to take an MBA.

The number of Japanese company employees being sent on MBA courses overseas expanded rapidly in the "bubble era" of the 1980s, and peaked in the early 1990s. Since then, numbers have fallen by up to half, and are set to fall further.

Belt-tightening is one obvious reason, but there are also doubts over the benefits of sponsoring staff to do MBAs. Since the practice became common, companies have found that a high – by Japanese standards – proportion of employees leave after completing the MBA course. One bank said 20 to 30 per cent of its MBA graduates resign. Estimates at other companies are even steeper.

The high departure rate is partly because new MBAs find that other companies, particularly foreign ones, are keen to recruit them and offer attractive salary packages. Some companies try to tackle the problem of a high drop-out rate by forcing MBA graduates who leave within three to five years to pay back their course fees. But this is not enough to deter executives who have been offered a choice of good jobs elsewhere; in some cases, the hiring company even repays the MBA fees for them.

A more serious problem is the frustration many MBA graduates experience at not being able to apply their new skills when they return. Their companies might have been forward-thinking enough to send them on the course, but traditional management structures and techniques prevail. MBA graduates are not necessarily promoted any faster, given greater responsibility or paid better than their less qualified contemporaries.

One academic at a leading Japanese business school explains that most companies were not motivated to send employees on MBA courses because they valued the qualification or management skills. Instead, an MBA programme was a useful lure to attract a higher calibre of graduate recruits.

The only specialist knowledge many middle-aged ex-Yamaichi employees seemed to have was how to navigate the maze of internal company politics

Now that many companies are cutting down on their recruitment programmes, and have no shortage of applicants, the MBA programmes may disappear or be slimmed down accordingly.

These days, the companies which genuinely want their staff to acquire modern management expertise appear more willing to send employees on short, intensive courses or regular seminars, rather than dispatching them for a year or two.

But given the growing willingness of Japanese companies to hire mid-career executives, and the expansion of foreign firms taking advantage of deregulation in Japan, demand for MBA graduates is likely to increase. Accordingly, the trend for younger Japanese executives to take business education into their own hands is accelerating. At Waseda University, only a fifth of the students on a new MBA course are funded by their companies.

The most ambitious young managers will always want to get their MBA from one of the prestigious institutions in North America or Europe, and many of them will find a way despite corporate budget-cutting and economic uncertainty. But many executives in their late 20s or 30s have family commitments and the enormous mortgages common in Japan. So the market set for the most rapid expansion is likely to be part-time Japan-based courses or distance learning.

McGill University, of Montreal, will this year become the first foreign university directly to offer a full English-language MBA programme in Japan. McGill has linked with Sophia University, a long-established Catholic university in Tokyo, to offer a two-year part-time MBA. The course content is identical to the Canadian original, and will be taught entirely in English, mainly by academics visiting from Montreal. Classes will be held two weekends a month, with extra one-week intensive courses twice a year to take advantage of clusters of public holidays or other traditional holiday periods.

The first intake will be in July this year, and course administrators said they received far more interest and applications than expected. Final numbers are not yet fixed, but the 100 firm applications exceed the planned class size of 40, so a second class may have to be arranged. Most inquiries were from individuals, rather than companies.

Similar courses, accredited by US educational bodies, already exist at Temple University in Tokyo (part-time), and the International University of Japan (full-time).

Distance-learning courses are also increasingly popular, and the newly-acquired Japanese enthusiasm for the internet has led to a rash of courses being offered by e-mail from US and European institutions.

There are also more traditional Japanese-language business courses aimed purely at the domestic market. Hosei University in Tokyo has been offering a part-time MBA course for the past five years, while some of the most prestigious private universities, such as Keio and Waseda, have full-time MBA courses.

It is not just MBA-style programmes which are attracting Japanese company employees bent on self-improvement. Business publications are packed with advertisements for seminars on Japan's financial "big bang" or the use of computers in business, and schools specialising in business-orientated English conversation.

Courses leading to recognised qualifications in accountancy, financial analysis or insurance are also full of salarymen investing in their own futures. For less than the price of a new Toyota, they can obtain a qualification which could give them a head start over their colleagues if finding a new job becomes a necessity, or if their company joins the trend towards performance-based salaries and promotion.

NEWS FROM CAMPUS

Fuqua fortune adds more value at Duke

Entrepreneur J.B. Fuqua is giving a further $20m (£11.9m) to the business school at Duke University which bears his name. The gift will mean Mr Fuqua has given more than $37m to the school.

The latest donation will be used to increase the number of endowed professors at the school and to expand its international outlook.

Mr Fuqua was born in 1918 and brought up on a tobacco farm in Virginia. He never went to college but founded Fuqua Industries, an industrial conglomerate.

Fuqua: www.fuqua.duke.edu

Sainsbury quits LBS

Lord Sainsbury, who stood down last week as boss of the eponymous supermarket chain, has also relinquished his role as head of the governing body at London Business School. He has been replaced by Vanni Treves, senior partner at law firm Macfarlanes and chairman of Channel Four Television.

The governing body is the supreme decision-making body at LBS. Its roles include appointing the dean of the school and approving the accounts and budget.

Martin Sorrell, chief executive of WPP, the advertising group, has become deputy chairman. The school also has three new governors.

LBS:www.lbs.ac.uk

Long-distance learning

The Kenan-Flagler business school at the University of North Carolina at Chapel Hill has joined forces with the Aoyama Gakuin University in Japan to develop distance learning courses for the Fudan University in Shanghai. The initiative is funded by electronics company Toshiba.

The schools' two deans are also discussing collaboration on research and other projects.

Kenan-Flagler: www.bschool.unc.edu

Cashing in on single currency

London's City University Business School has joined forces with the Fordham Business School in New York to run an international consultancy assignment for its MBA students. The topic is the single European currency.

City has also teamed up with the European body the Investor Relations Society to run an elective course, in among other things, investor relations, international accounting, valuation tools, regulation and compliance.

City: UK, (0)171 477 8000

Rotterdam wins AACSB approval

The Rotterdam School of Management at the Erasmus graduate school of business has been accredited by the AACSB, the US accreditation body. It is only the second European school to be granted AACSB accreditation – the other is Essec in Paris.

RSM: Netherlands, 10 408 2768

Martin monitors Rotman School

The University of Toronto has appointed a management consultant to the job of dean at its Rotman School of Management.

Roger Martin, who will take up the job on September 1, is a senior partner at the Massachusetts-based consultants Monitor, where he has worked since 1985. Mr Martin, a Canadian from Elmira Ontario, is a Harvard MBA.

Rotman: www.mgmt.utoronto.ca

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southwark Bridge, London SE1 9HL. Tel. 44 171 873 4673 Fax 44 171 873 3950

FOOD AND AGRIBUSINESS MBA

Reaping the business benefits

Agriculture requires an increasingly international approach, writes **Sally Watts**

Alex Songal, a 44-year-old Russian student at the UK's Royal Agricultural College, Cirencester, is studying for his European MBA in food and agribusiness so that he can return to Kaliningrad, on the Baltic, with an understanding of western finance and business.

Having completed the eight modules – his course included futures and the development of the European Union and the Common Agricultural Policy – Mr Songal is now engaged on the team project. The final part of the programme, a dissertation, starts in June.

The course is probably the only MBA course to specialise in the European agriculture and food business. Since its inception four years ago, students who need to understand the EU and how it operates have enrolled from as far away as China, Indonesia, South Africa and Australasia. Some aim to form commercial partnerships or trading links in Europe, others to teach or build a career in consultancy when they go home.

Participating centres, all of which recruit students, are Larenstein International Agricultural College in the Netherlands; Fachhochschule Nurtingen, Germany; Groupe ESA, Angers, France; plus the two validating institutions, the RAC at Cirencester and Universidad Politecnica de Valencia, Spain.

This autumn the project moves a stage further with the inclusion of a centre in the US.

Prospective managers on each side of the Atlantic will take a semester in both America and Europe in preparation for the jointly validated food-agribusiness MBA. The US universities are Arizona State (US leader), Utah State, Kentucky and Clemson, South Carolina. Seven European centres will take part in the project, dubbed the Phoenix initiative.

The initiative stems from Jonathan Turner, dean of business at the RAC, the project leader. "The EU is becoming less protectionist and also companies are looking for greater global orientation," he explains. "We know there are problems on which we and the US disagree, and hope that training will give both sides wider views."

According to Jonathan Turner and Eric Thor, professor of AgriBusiness at Arizona, issues such as "mad cow" disease, international wines and genetically modified organisms, are examples of how the challenges facing private sector and government are increasingly linked.

At Cirencester, Michael Matthews, careers adviser and UK manager of the MBA course, identifies two-way career moves: some managers go into farming and some farmers become managers.

German and Dutch participants, with a first degree in farming, may use their MBA to join a feed or horticultural company. Some students extend their career into commodities, futures, market research or analysis. Others plan a complete change.

David Maxwell is a typical British student. He is 25 with an Edinburgh degree in agriculture, and already has job offers for his chosen career in the grain trading industry. His university course, he says, gave him many tools for his job but the MBA enables him to "put my business skills together, see the cognitive effect and achieve a complete management style".

PUBLIC NOTICES

SCOTTISH EQUITABLE POLICYHOLDERS TRUST LIMITED

NOTICE IS HEREBY GIVEN that the fifth ANNUAL GENERAL MEETING of Qualifying Policyholders of Scottish Equitable Policyholders Trust Limited will be held at the offices of Scottish Equitable plc, Edinburgh Park, Edinburgh EH12 on Thursday 28 May 1998 at 11.30 am for the following purposes:-

1 To consider the Report on the Activities of the Company for the year ended 31 December 1997.

2 To approve the aggregate ordinary remuneration to be made available to the Directors of the Company.

3 To reappoint Directors of the Company retiring by rotation at the Meeting, namely:
a) Barry E Sealey
b) Eric I Cuthbertson.

Any Qualifying Policyholder who is entitled to attend and vote is entitled to appoint another person (who need not be a Qualifying Policyholder) as his proxy to attend and vote instead of him. A proxy is entitled to vote but is not entitled to speak except to demand or join in demanding a poll. Proxy forms, which can be obtained from the Company Secretary (at the following address), must be deposited at Edinburgh Park, Edinburgh EH12 9SE before 11.30 a.m. on 26 May 1998.

Every Qualifying Policyholder whose policy, as at the commencement of the Meeting, is in force, and has been at least one year in force, is entitled to attend and vote at the Meeting.

"Qualifying Policyholders" for the purposes of this Notice has the meaning set out in the trust deed executed by the Company on 31 December 1993 and extends to:-

a) any person who was a member of Scottish Equitable Life Assurance Society and whose policy has been transferred to Scottish Equitable plc;

b) any person who has a with profits policy with Scottish Equitable plc where the policy has been linked to the With Profits Sub-Fund for a continuous period of at least one year as at the commencement of the Meeting.

Any queries in respect of the qualification of policyholders to attend and vote at the Meeting should be addressed to the Company Secretary (at the address specified below).

By Order of the Board
P. H. Grace
Managing Director

Edinburgh Park
Edinburgh EH12 9SE

OPENINGS

LONDON
David McVicar makes his English National Opera debut on Wednesday, directing a new production of Massenet's *Manon*. Paul Daniel conducts a cast headed by Rosa Mannionn and John Hudson.

Rent, the famous New York musical, arrives at the Shaftesbury Theatre tomorrow. Leading the London cast are Wilson Jermaine Heredia, Jesse L. Martin, Adam Pascal, and Anthony Rapp.

A triple bill of plays by Harold Pinter opens at the Donmar Warehouse on Wednesday, with Pinter himself acting in two of them; *The Lover* and *The Collection*. In the third, *A Kind of Alaska*, Penelope Wilton repeats the performance she gave so brilliantly last year at the Gate Theatre Dublin's Pinter Festival.

Opening on Thursday, Shaw's *Major Barbara* is the latest play to join the repertory of the Peter Hall company at the Piccadilly Theatre. Jemma Redgrave (left), joining the company, takes the lead role, supported by Peter Bowles and Anna Carteret.

BONN
On Friday, the Kunst- und Ausstellungshalle turns its attention to the culture of the people who inhabited the Iberian Peninsula between Andalusia and Languedoc from the sixth to the first century BC. More than 350 objects have been lent by Spanish and French museums. The exhibition runs until late August.

STOCKHOLM
The first major exhibition in Sweden of Joan Miró opens at the Moderna Museet on Saturday. It will concentrate on early works, and be accompanied by a special display of the Museet's Surrealist holdings.

PRAGUE
The Prague Spring festival opens tomorrow with the traditional Czech Philharmonic performance of Smetana's *Má Vlast* in the Smetana Hall. This year's conductor is Vladimir Valek. The festival programme features orchestras from Detroit, Paris and Stockholm, as well as performances by leading Czech ensembles. Recitalists include Melvyn Tan, Midori (left) and Heinrich Schiff.

VIENNA
The Kunsthaus has pulled off a coup by being the first museum to display the "secret collection" of Picasso paintings, given by the artist to his chauffeur and housekeeper between 1965 and 1973. There are 130 works, including portraits, erotic drawings and terracottas. The exhibition opens on Thursday and runs until the end of August.

PARIS
Georges Lavaudont, artistic director of the Odéon-Théâtre de l'Europe, presents there on Thursday his own, new production of Brecht's *La Noce chez les Petits-Bourgeois*.

CHICAGO
After inaugurating their American tour in Iowa tonight, Sir Simon Rattle (right) and the City of Birmingham Symphony Orchestra move on to their first big date tomorrow at Chicago's Orchestra Hall. The orchestra gives concerts in Washington, New York, and Los Angeles, before spending a week in Japan. Tour repertoire includes Birtwistle's *The Triumph of Time*, Knussen's Third Symphony and Mahler's Seventh.

Powerful and colourful images: 'Granida and Daifilo' by Gerard van Honthorst, one of the Utrecht artists on show at London's National Gallery

New light shed on Dutch art

Antony Thorncroft explains why an obscure group of artists is attracting so much attention

The National Gallery's summer show, *Masters of Light: Dutch Painting from Utrecht in the Golden Age* might not have the knock-out appeal of an exhibition of works by Monet or the Pre-Raphaelites, and in fact quite a few art history graduates might have trouble remembering the name of just one of the artists who apparently made this Dutch city such a creative force in the early 17th century.

Wtewael, Ter Brugghen, Bloemaert and Van Honthorst are on the outer circles of the artistic consciousness. In the event their canvases – mainly religious or mythological scenes that show the influence of either Caravaggio or the Italian Mannerists – are colourful and powerful images, and the show will almost certainly be a great critical success. But where did these artists come from?

Forty years ago they were virtually unknown. They have come to prominence as a result of the need for art historians to have something original to research, and the even greater need of the auction houses and dealers to have something to sell.

The world scarcely needs another research assignment on Rembrandt or Van Gogh, but when Benedict Nicolson wrote a book on Ter Brugghen 40 years ago he was opening up a rich new field for exploitation – by scholars, connoisseurs, and, most blatantly of all, by the trade.

Ter Brugghen was a particular find because, on the essential trip for a young Dutch artist to Italy, he fell under the influence of Caravaggio. Caravaggesque art, with the dramatic contrast between threatening shadows and piercingly lit highlights, has tremendous popular appeal.

The other great development in 17th century Utrecht art, a group of painters drawn to the refined Mannerist tradition of Italy, notably Wtewael, was rescued from obscurity by Anne Lowenthal in 1986. These light-hearted, sometimes erotic works, threw a completely fresh perspective on the Dutch temperament.

Suddenly art historians realised that Dutch 17th century art was even more creative and varied – not just Rembrandt and Vermeer; Ruysdael and Cuyp – but also artists drawing on foreign influences, whose work was likely to appeal to contemporary collectors of Italian art as well as to the traditional buyers of Dutch paintings.

The art market is desperate for a fresh supply of well-researched and critically approved artists to make good its ever-depleting stock. The masterpieces by the great Renaissance painters – Raphael, Michelangelo, Botticelli – were long ago secured by museums, and most of the best works by their successors – Titian, Claude, Rembrandt – are also safely in the public domain.

The antiques trade needs to "discover" great artists, or preferably schools of artists; and the Utrecht painters, bolstered by scholarly research, offered a wonderful opportunity.

An obvious attraction was that their works were inexpensive. You might have acquired a major painting by Ter Brugghen for a few thousand pounds 30 years ago, and even today fine examples of work by most of these artists can be acquired for less than £250,000, although Ter Brugghen is already £500,000-plus and rising.

There was also a fair supply of them, which made them particularly appealing to American museums. Many of the 70 or so paintings on display at the National Gallery come from American museums in Kansas City, Detroit and Minneapolis, as well as New York, Boston and Philadelphia.

The antiques trade needs to 'discover' great artists, or schools of artists; and the Utrecht painters, bolstered by scholarly research, offered a wonderful opportunity

The Utrecht artists are not alone. Painters from other schools, other periods, other countries, are enjoying a sudden popularity. Dealers are adept at stocking up on artists in preparation for posthumous apotheosis. The obvious approach is to promote the artists of nations that are suddenly becoming wealthy: new collectors tend to be patriotic. In the 1970s, 19th century portraits of Iranian nobles went from a few hundred pounds in value to a few hundred thousand in a matter of years. Chinese paintings, traditional and contemporary, are now experiencing a rapid price escalation.

But there are also changes in the academic western tradition. Spanish still-life paintings received a boost from a National Gallery exhibition in 1995, and a good work by an artist like Melendez is now worth £1m. An earlier exhibition at the National Gallery uncovered the attractions of Danish art of the early-19th century; the collection of long-ignored 17th century Italian art, amassed cheaply by Sir Denis Mahon over 40 years, is now regarded as seminal. Attention is switching to possible new discoveries – Spanish paintings of the 18th century, perhaps, and, with even more commercial potential, overlooked 19th century German art.

The collections of the great national galleries are impressive enough to suggest universality: they are not. They represent past taste, mainly the taste of rich benefactors, rather than the opinions of scholars. There are glaring gaps. The National Gallery already holds good paintings by Ter Brugghen, Wtewael, Honthorst and more, but it is still weak in 19th century German and Spanish art.

This Dutch exhibition will give confidence to collectors, dealers and scholars in what had been a backwater. It will please many art lovers by introducing them to previously unknown paintings. It should also give prices a boost. But, like much in the art world, its very existence rests on chance. This expensive show would have been impossible without sponsorship from SBC Warburg, whose chairman, Hans de Gier, just happens to be from Utrecht.

MUSIC THE PROMS

Kenyon's sure touch at the helm

It may be racked by internal dissent, pressurised by the government, and pilloried by its most loyal consumers, but on July 17 the BBC launches again the one event which wins general acclaim – the Promenade concerts. Until September 12 it will present 73 concerts which, on last year's evidence, will attract audiences of almost 90 per cent capacity with an artful mix of the old – indeed the very old, with music to celebrate the 900th anniversary of the birth of Hildegard of Bingen – and the very new, with 30 premieres and a Prom debut for the music of Bob Marley.

Director Nicholas Kenyon, who is also controller of Radio 3, now knows how to tweak the programming to achieve maximum impact. There is only one innovation this season, a day devoted to the British choral tradition, climaxing with 1,000 singers performing *Carmina Burana*: but recent additions, such as the Last Night *al fresco* Prom in Hyde Park, and a Schools' Prom, held this year to celebrate 40 years of the children's TV show *Blue Peter*, are continued.

Kenyon likes a gimmick and this year is asking a non-Briton, the US baritone Thomas Hampson, to sing "Rule Britannia" on the Last Night. Kenyon also points to the strong Gershwin element in the programme: the Proms love anniversaries and is celebrating the centenary of the births of Gershwin, Eisler and Brecht.

This year the big overseas orchestras are back, with visits from the Berlin Philharmonic under Abbado; the Chicago Symphony with Barenboim and the Los Angeles with Salonen: the St Petersburg, the Dresden, and the Czech Philharmonic, all performing at prices well below their market rate. The Proms' skill in programming is revealed in getting the sell-out City of Birmingham Symphony Orchestra under Rattle to perform a rarity, *King Roger*, the only opera by Symanowski, one of this year's featured composers.

Most of the new works are slipped into popular programmes, although there is perhaps no commercial need to present the UK premiere of Harrison Birtwistle's *Exody* along with Mahler's 5th, both played by the Chicago Symphony. Another intriguing first performance is saxophonist John Harle's first opera, *Angel Magick*, which also happens to be the first opera commissioned by the Proms.

The main themes are "Power and Politics" and "Magic and Mystery", which more than justify rare performances of Handel's *Solomon* and Rameau's *Zoroastre*. It also enables the Proms to open with Berlioz's *The Damnation of Faust*. English composers feature strongly, particularly the music of

US baritone Thomas Hampson will sing 'Rule Britannia' on the Last Night

Hubert Parry.

The Proms costs the BBC around about £5m, but almost half of that is recovered at the box office. The corporation is starting to realise that the commercial potential in such a popular event, "the world's greatest music festival" as it is promoted, makes it a good investment.

Not only do the Proms fill hundreds of radio hours, especially now that every performance is repeated, but Kenyon arranges much of Radio 3's summer programming around Prom events. With 10 BBC TV transmissions; extensive radio coverage across Europe; and the Last Night taken in many countries, the Proms is probably the BBC's most successful international brand.

Any classical music festival which can dispose of 250,000 tickets, guarantee sell-out concerts on many nights and attract a sizeable proportion of first-time concert-goers when some claim the art form is in its death throes, must have something going for it.

A.T.

INTERNATIONAL Arts Guide

AMSTERDAM

EXHIBITIONS
Rijksmuseum
Tel: 31-20-673 2121
Sunday: Photographs by Catrien Ariëns. First in a series of special photography commissions, which looks at what the Dutch do on Sundays; to Aug 23

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Tosca: by Puccini. New production by Nikolaus Lehnhoff with a cast including Bryn Terfel. The conductor is Riccardo Chailly; May 12, 15

BALTIMORE

EXHIBITION
Walters Art Gallery
Tel: 1-410-547 9000
Monet: Paintings of Giverny from the Musée Marmottan. 22 paintings produced during the last 23 years of the artist's life, when his energies were focused on painting his gardens. Photo murals and works from the collection will be shown alongside the touring works; to May 31

BARCELONA

EXHIBITION
Fundació Joan Miró
Tel: 34-3-329 1908
www.bcn.fjmiro.es
Private negatives, public fictions: 100 photographs from the collection of the Musée National d'Art Moderne in Paris. Includes works by Robert Doisneau, Dora Maar and Man Ray; to Jul 12

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
● Il Ritorno d'Ulisse: by Monteverdi. New production conducted by Philippe Pierlot in a staging by William Kentridge. With the Handspring Puppet Company, at the Lunatheater; May 12, 13, 15, 16
● L'Orfeo: by Monteverdi. New production conducted by René Jacobs and directed and choreographed by Trisha Brown, with designs by Roland Aeschlimann; May 13, 14, 15, 16

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Franz Welser-Möst in works by Brahms and Shostakovich. With piano soloist André Watts; May 14, 15, 16

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
Le Comte Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; May 15

FRANKFURT

CONCERTS
Frankfurt Oper
Tel: 49-69-21202
Budapest Festival Orchestra: conducted by Iván Fischer in works by Mahler and Bruckner; May 15

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
The Queen of Spades: by Tchaikovsky. Conducted by Richard Armstrong in a staging by Yannis Kokkos; May 12

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by Mikko Franck; May 16

LAUSANNE

CONCERTS
Théâtre de Beaulieu
Tel: 41-21-643 2211
Orchestre de la Suisse Romande: conducted by Ulf Schirmer in works by Carl Nielsen and Isang Yun. The programme is completed by Stravinsky's Rite of Spring; May 14

OPERA
Opéra de Lausanne, Théâtre Municipal
Tel: 41-21-310 1600
Il Matrimonio segreto: by Cimarosa. Conducted by Jonathan Darlington in a staging by Alain Marcel. Cast includes Alison Hagley; May 12

LISBON

CONCERTS
100 Days Festival, Expo '98
Madrid Symphony Orchestra: El Amor Brujo by Manuel de Falla; Main Auditorium, Centro Cultural de Belém; May 16

DANCE
100 Days Festival, Expo '98
Pina Bausch: specially commissioned new work; Main Auditorium, Centro Cultural de Belém; May 11, 12, 13

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
Barenboim Beethoven Cycle: series of six concerts, with Barenboim conducting the nine Symphonies and directing the five Piano Concertos from the keyboard. With the Staatskapelle Berlin and London Symphony Chorus; May 15, 16

EXHIBITION
National Gallery
Tel: 44-171-839 3321
Masters of Light: Dutch Painting from Utrecht in the Golden Age. Brings together 74 works produced by painters working in the city of Utrecht in the first half of the 17th century; to Aug 2

LOS ANGELES

OPERA
L.A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Il Trovatore: by Verdi. Conducted by Gabriele Ferro in a staging by Stephen Lawless. Cast includes Vladimir Bogachov; May 13, 16

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Der Freischütz: by Weber. Conducted by Donald Runnicles in a staging by Pier'Alli, with a cast including Kim Begley and Nancy Gustafson; May 12, 14, 16

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Bavarian Radio Symphony Orchestra: conducted by Dmitrij Kitajenko in works by Prokofiev and Tchaikovsky; May 14, 15
● Westdeutsche Sinfonia Leverkusen: conducted by Dirk Joeres in works by Haydn, Mozart and Beethoven. With horn soloist Michael Thompson and violinist Jurai Cizmarovic; May 13

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
The Midsummer Marriage: by Michael Tippett. Mark Elder conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; May 15

NEW YORK

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Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: conducted by Leonard Slatkin in works by Fine, Mozart and Dukas. With piano soloist Alicia de Larrocha; Avery Fisher Hall; May 12

PARIS

CONCERTS
Théâtre des Champs Elysées
Tel: 33-1-49525050
Cyril Huvé: recital by the pianist of works by Brahms; May 11

EXHIBITIONS
Musée du Louvre
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ST PETERSBURG

EXHIBITIONS
State Hermitage Museum
French Master Drawings from the Pierpoint Morgan Library: featuring 120 drawings, sketchbooks and albums drawn from the library's permanent collections. Highlights will include works by Cézanne, Delacroix, Ingres and Poussin; to Jul 25

STOCKHOLM

OPERA
Königlichen Oper
Tel: 46-8-248 240
Deutsche Oper: Tannhäser, by Wagner. Conducted by Jiri Kout in a staging by Götz Friedrich; May 12

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06.30: *Moneyline with Lou Dobbs*
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05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PERSONAL VIEW DOMINIQUE MOISI

A fresh direction

France and Germany must find a new common purpose now that the euro is here

The confrontation over the presidency of the European Central Bank should not be overblown.

What happened in Brussels two weekends ago was neither a victory for France nor a defeat for Germany. It will be remembered above all as a revolutionary victory for Europe, a visionary jump into the future. In the end, the answer to the Franco-German dilemma, at least in part, lies in the euro itself. The coming of the euro will by its very essence dilute the obsessional nature of Franco-German relations. The euro will be multilateral and will tend to make bilateral relations at the same time less necessary and less central.

But Franco-German relations, whether you define them as "the engine of Europe" or in more emotional terms as a couple, do matter. In the present configuration of Europe, compromises are still necessary between nation states jealous of prerogatives they no longer possess.

Franco-German fractures are at the same time less dramatic than they appear and more profound than in the last 20 years. The Franco-German engine is more stable than it sounds because Paris and Bonn or Berlin, whatever the strength or weakness of their respective governments, whatever also their political orientations, or the personal alchemy between leaders on both sides of the Rhine, are convinced that no serious alternative exists in Europe to their unique relationship.

Both countries are deeply aware that they must preserve it irrespective of the irritation, frustration, disillusion or even suspicion between them. Seen from Paris or Bonn, the UK, even under Tony Blair, the prime minister, does not yet constitute a realistic European alternative. It will take years for the British to behave in a truly European manner, whatever that may mean. A club of three is not about to replace a club of two.

The British may speak favourably of substituting polygamy with bigamy but the French reject their argument. In fact, in private they sometimes say that Franco-German relations are so strained, so vulnerable that they cannot be further endangered by what would appear to be flirtatious openings to London.

It is also true that at the highest level, Franco-German relations have lost part of their unique quality. Helmut Kohl, the German chancellor, and François Mitterrand, the former French president, had built an unlikely but real friendship, based in large part on their common memories of the second world war and their respective emotions. No such feelings exist between Jacques Chirac, the current French president, and Mr Kohl and the latter may find the former too light or too heavy at times.

Personalities do matter, but less than objective realities. Germany has stopped behaving as an economic giant and political dwarf, even if it has not yet overcome its tendency to believe that good intentions matter more than good deeds. It is learning to take political initiatives. What would happen to Europe if Germany were to behave with the same selfish, if not brutal, assertiveness as the French did in Brussels? What will happen when the Germans are no longer obsessed by fear of themselves linked to their past? But Germany is so decentralised and its Länder (states) are so powerful that a new Bismark is unthinkable.

The French and the Germans have no common European message. The exemplary success of their reconciliation model has left them without a joint goal. The medium was the message. The aim of the trip, getting closer, has been reached during it. But to describe the European construction as a mere process is no longer enough. A larger and more open market is not a sufficient ambition either.

In this context the process of globalisation presents a common test for the two countries. But does it bring them closer together? Seen from the outside, France and Germany, two medium-sized powers, seem confronted with the same challenges. Some would go as far as saying that the two countries are engaged in a game of competitive decay, since neither has gone through the radical Thatcherite socio-economic diet.

What would happen to Europe if Germany were to behave with the same selfish, if not brutal, assertiveness as the French did in Brussels?

In the age of globalisation, size matters. If small is beautiful and big is powerful, then medium is problematic. But if it is not easy being medium, it is even less so for some than for others. If France were a young state, less set in its ways, less burdened by the weight of old images or traditions, it might be able to adapt. But France is an ancient country. It cannot forget its history and, in trying to reconcile it with elements of the modern world, ends up merely superimposing it upon them, creating a hotchpotch that is true to neither.

A younger country, a more decentralised one with a more modest and probably more honest state apparatus, Germany may be in a better position to face globalisation. Its citizens are less tempted to retreat into the protective bubble of the good life, perhaps because the quality of life, from food to wine, is less evident than in France. This is in spite of the fact that today's Germans seem to be more permeated by protectionist tendencies than at any time in their recent history.

In Brussels the French have been defending what they perceive as their national interest with a perseverance that translates into a lack of self-confidence. Hesitant about their influence in an enlarged Europe, with a strong Germany at its centre and a more economically dynamic Britain, the French are also anxious about the applicability of France's model of state centralisation to the requirements of a new Europe. There is a nagging fear in France that Britain's *laissez-faire* economic model, built by Margaret Thatcher, the former Conservative prime minister, and largely preserved by Mr Blair, and Germany's form of decentralised government, are more modern than France's old-fashioned statist recipe.

In the meantime, Franco-German problems will remain what they are – less spectacular than the media tend to describe them but also more profound and more serious. The two countries are moving in diverging ways. They perceive the role of the state differently and on that count it is France that tends to isolate itself by turning the problem, the state, into a solution.

Even if Gerhard Schröder of the Social Democrat party wins the election in Germany it will not necessarily bring the Germans closer to the French because Mr Schröder's vision of the role of the state in the economy will probably be very different from that of Lionel Jospin, the French prime minister. Is the old couple about to turn into the odd couple?

The author is deputy director of the Paris-based Institut Français des Relations Internationales and editor of Politique Etrangère. He writes here in a personal capacity

LETTERS TO THE EDITOR

Duisenberg-Trichet deal will strengthen ECB's independence

From Mr Franz Woehrling.

Sir, Most observers have expressed fears that the Duisenberg-Trichet deal will weaken the European Central Bank's independence. Much time and space was devoted to possible market reactions. The FT was almost alone to sound a more realistic note.

An objective "balance of power" analysis would lead to the conclusion that the ECB's independence will be strengthened rather than weakened by this incident. Let me list some arguments.

● As reported by the FT ("Chirac laughs off suggestion of farce", May 4), the new members of the board will feel that they will have to demonstrate even more firmness than otherwise.

● The fears of the German public have been revived. Bonn will have to fight more uncompromisingly for fiscal tightness and it will now be Germany's turn to ask something from the French. It will be "more stability".

● Most small countries that are already on a more expansionary course than France will be less accommodating to French desiderata and push for timely rate increases.

● The heads of state have demonstrated their amateurism and Jacques Chirac his biases. More is to come since the "national interests" are continuing to diverge. Against the background of a squabbling political sphere, the ECB will appear more professional and realistic. Furthermore, it has not yet been sufficiently appreciated that Mr Chirac's major strength lay in the fact that on May 2 1998 there was no functioning board. In the future, the heads of state will "be able" to fight to their hearts' contents while the ECB will sit back, wait and work.

● It has also been suggested that Dominique Strauss-Kahn, French finance minister, wanted to use French power to strengthen the Euro-X council but Mr Chirac decided to divert this power to Mr Trichet's promotion. A historical quirk has strengthened the ECB's hand.

Franz Woehrling,
33 boslaan,
3090 Overijse, Belgium

UN peacekeeping role should not be confused with peacemaking

From Mr David A. Bershtein.

Sir, You are correct when you state ("Nostra Culpa", May 7) that Kofi Annan, the United Nations secretary-general, was the head of UN "peacekeeping". But you contradict this and misunderstand the UN when you imply that he or anyone else at the UN was or can be allowed under the charter to be in charge of peacemaking.

The peacekeeping process occurs when member states make their own peace and ask the UN for the kind men and women in blue helmets to keep their peace. When these same men and women, volunteers from member states, are sent home in body bags, it is the duty of the head of peacekeeping to remove some or all of the surviving troops, consult the states that loaned the troops, and to request that the factions attempt to reach another peace. It is hardly the director's job to seek love or popularity and, as a member UN state, Rwanda would understand all of this.

As it is, the budget and activities of peacekeeping at the UN have swelled out of proportion to other work there. It is to be hoped in increasing degree that the charter's purpose, to save succeeding generations from the scourge of war, can be achieved by the UN's unique forum, where countries otherwise isolated and often without broad diplomatic recognition, find a voice.

David A. Bershtein,
News Alert Inc.,
108 E. 31 Street,
New York, NY 10016, US

Heavy solution required

From Mr Robert Davies.

Sir, We must all have had a sense of horror as the Dow Jones neared the 10,000 mark with the possibility that computers could not cope ("Computer bomb fear if Dow hits 10,000", May 5). General de Gaulle introduced a "heavy" franc. Why not a "heavy" Dow Jones?

Robert Davies,
7 Willowcroft,
Lee Park,
London SE3 9HH, UK

Radical reform programme in Ukraine starting to bear fruit

From Mr Volodymyr Vassylenko.

Sir, Your survey of Ukraine (May 5) creates a dubious impression due to arbitrary interpretation of historical facts and of the economic development of the Ukraine. It rightfully recognises tremendous losses suffered by the Ukrainian nation. At the same time, it blames Ukrainians for "complaining of their poor fate" and searching for "historical excuses". Ukraine is not doing that; it maintains that historical knowledge and memory are indispensable for proper insight into the nature and scope of the problems it has inherited and with which it has to cope, particularly in the economic sphere.

The survey mentions a number of facts – almost all seem correct in themselves, but it fails to present the principal facts that show the trends in Ukraine's economic development. True, Ukraine experienced setbacks in implementing economic reforms due to varying reasons. However, a radical reform programme introduced by President Leonid Kuchma in 1994 has started to bear fruit: already in 1998 industrial output has grown by 1.7 per cent; inflation has declined from 182 per cent in 1995 to 10.1 per cent in 1997; more than 60 per cent of output has originated in the private sector; Ukraine has a stable currency. These are just a few examples of Ukraine's economic turnaround.

Moreover, the small privatisation programme has been completed; privatisation of large-scale companies is fully under way. This, it is hoped, will create a powerful boost to Ukraine's corporate securities markets.

As a result of these developments, and despite the Asian "fallout" crisis, Ukraine's stock market has become the fifth-largest in the region, with a total capitalisation approaching $4bn.

Volodymyr Vassylenko,
ambassador,
Ukrainian Embassy,
78 Kensington Park Road,
London W11 2PL, UK

Number One Southwark Bridge, London SE1 9HL

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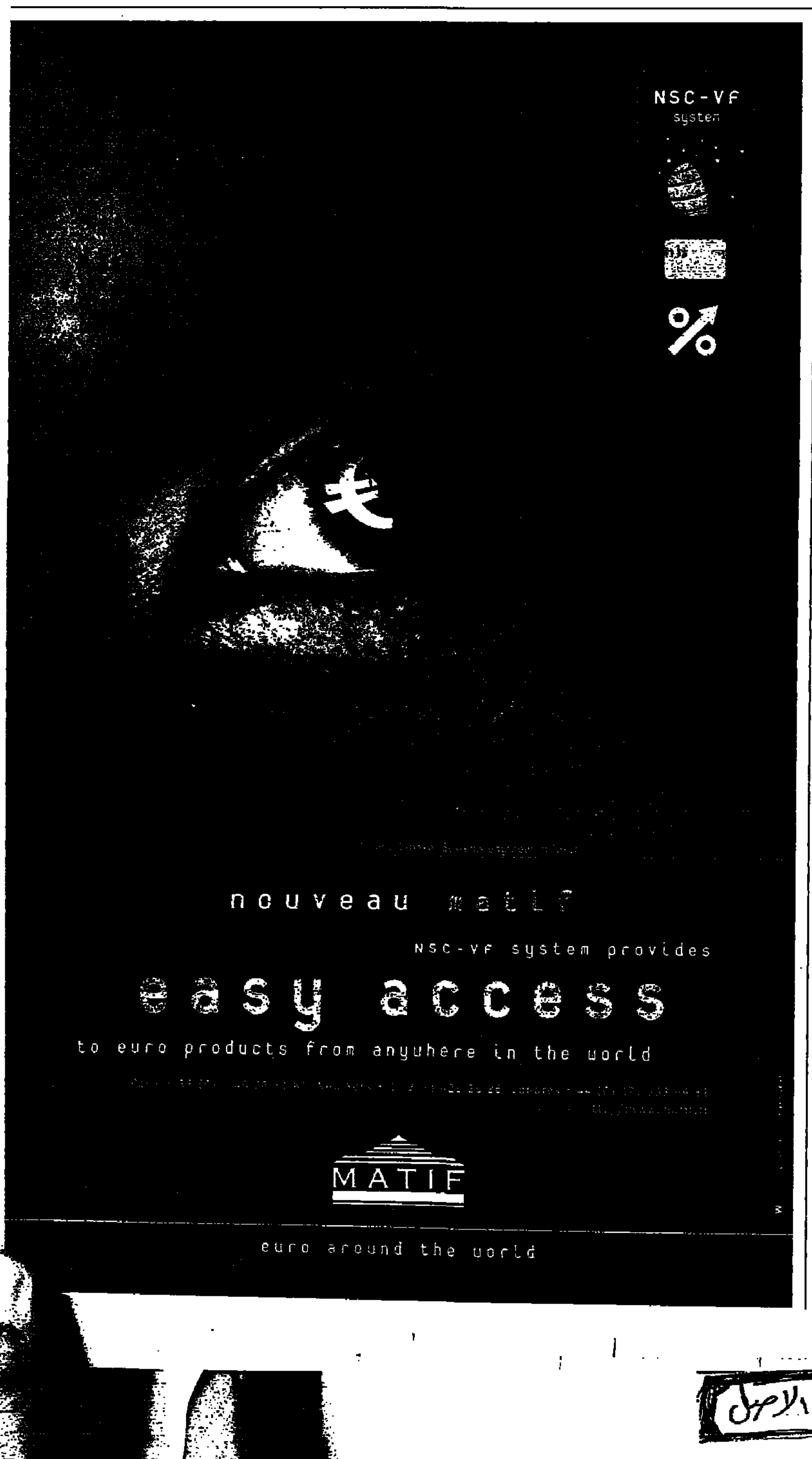

FT INTERVIEW GERHARD SCHRODER

Germany's moderniser

The Social Democratic party's chancellor candidate tells **Peter Norman** and **Ralph Atkins** of his plans to create a new beginning for the German model

With 139 days to Germany's September 27 general election, Gerhard Schröder, the Social Democratic party's chancellor candidate, is posing a real threat to Chancellor Helmut Kohl.

Helped by a slick campaign, the SPD's support is running at about 44 per cent, 10 points ahead of the poll ratings of Mr Kohl's Christian Democratic Union and the Christian Social Union, its Bavarian sibling. One opinion poll published on Saturday found 62 per cent of Germans want Mr Schröder, 54, as chancellor against 25 per cent for Mr Kohl.

But what do Mr Schröder and his party stand for? What should investors, at home and abroad, make of his economic policies? And what could governments overseas expect if he wins?

Interviewed on a sunny terrace outside his office in Bonn, Mr Schröder declared his aim was to "provide a new beginning for the German model". His agenda, "based on balancing the interests of the main players in society", is that of a moderniser rather than a radical reformer. With the SPD occupying the middle ground of politics, he wants to squeeze as much change as possible from existing structures in a country of powerful vested interests – not least in his own party.

At the centre is the "alliance for jobs", modelled on Dutch and Italian experiences, in which government, trade unions and employers would make binding commitments, creating security for investors to plan over the four-year life of a parliament. "It has nothing to do with interventionism or the state giving orders," he insists. "It is a matter of establishing communications and conditions in which the partners work out what each other has to do, and when and how."

Mr Schröder's message to investors is that he is going to make Germany work better. The state's job is "to gear its social and tax policies to competitiveness" and to support innovation to reduce unemployment. His aim "is a new consensus" on economic policy in which social justice looms large.

His tax policy, for example, aims "to ease the burden of those who really contribute to society – the broad spectrum of wage and salary earners who work every day in factories and offices". He would lower the average taxpayer's monthly bill by DM200 ($117). He is "far less fixated on the top tax rate" and shrugs off criticism from the government, business and Germany's rightwing press that the SPD pledge to cut the top income tax rate to 49 per cent from 53 per cent would do little to encourage investment.

SPD reform plans are subject to there being sufficient funds to finance them. But businesses should benefit from his proposed 35 per cent tax on business profits. The tax cuts would be paid for by pruning tax breaks.

Mr Schröder cites social justice and economic common sense as reasons for the SPD's much criticised plans to "correct" some of Mr Kohl's supply-side reforms. He also has a personal interest in reversing Mr Kohl's plans to trim pensions.

"We have said a pension of between DM900 and DM1,300 a month cannot realistically be cut because you would push those affected – particularly women with no other source of income – below the social security level. My mother is affected by this. I can help her. But I haven't forgotten that there are elderly women, like my mother, who don't have sons who can help. Those who think I am only a Social Democrat by accident have made a mistake. This issue is related to my concept of justice and will be corrected for this reason."

It is the only reminder during our interview of Mr Schröder's rise to state premier of Lower Saxony from an impoverished childhood. He left school at 14 to work in a hardware store, caught up on his education at night school and joined the SPD in 1963. He moved to the party's right during the past three decades and was viewed with suspicion by many activists until he became chancellor candidate following his victory in the March 1 Lower Saxony election.

Since then the Bonn government and media have waited for signs that the party's unity will fracture. Mr Schröder appears unconcerned: "I believe the SPD has realised it needs to be orientated towards the centre of society in Germany to win elections." There will always be problems at the margins, but "the mainstream is in order".

He is also sure of his relationship with Oskar Lafontaine, the SPD's mercurial leader. "It will last. We need a division of labour in today's media conditions so that one of us is always ready to act and react." Mr Lafontaine can also "be more visionary as a party leader who doesn't have to bear the burden of government". That is "especially good for a party that considers itself progressive" and it leaves Mr Schröder "some time for wife and child".

If Mr Schröder wins the election, he will be the first modern German leader not to have experienced the second world war at first hand. This will change the way Germany acts in Europe and on the international stage.

"The new German foreign policy won't be unhistorical. But I believe we have shown in the past 50 years that there is no reason to tie down the Germans, out of fear of the *furum teutonicus*." (The German fury that plunged Europe into two world wars this century.) "My generation, and those following, are Europeans because we want to be, not because we must be. That makes us freer in dealing with others."

"We won't change Germany's pro-European orientation. But with the decision over the euro, the strategic heights have been reached. Now we begin with the hard work in the plains." Mr Schröder favours Poland joining the European Union but asks: "What consequences would arise from the free movement of Polish workers? How do we deal with that, without risking tensions in Germany and a resulting rightist development among people who feel threatened by labour market competition?"

Mr Schröder's Germany will be "more self confident and more calculable than a partner with inferiority complexes." But it will be a robust EU member. "Germany standing up for its national interests will be just as natural as France or Britain standing up for their national interests."

COMMENT & ANALYSIS

FINANCIAL TIMES
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Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
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Reforming finance

Rebuilding after their financial conflagration is increasingly the pre-occupation of the devastated Asian economies. The challenge for policy-makers of the Group of Seven leading industrial countries is broader, though less urgent. With the blaze apparently under control, they must consider how to make the world's financial system more flame-resistant, improve its fire brigade and facilitate the future efforts of burnt-out countries to rebuild.

Last weekend's meeting of the G7 finance ministers in the UK, which is to be followed by the summit this coming weekend, provides an opportunity to take stock of their progress. What matters at this relatively early stage is not whether the policy-makers have the answers. What is important is rather whether they are asking the right questions. To an extent, they are. But excessive complacency and a consequent failure to confront some big problems are also evident.

Following so soon after the Mexican crisis of 1994 and 1995, the Asian crisis provides a salutary warning. The interaction between a highly liquid global capital market and the frail financial systems of emerging markets is potentially incendiary. Within a few weeks, entire financial systems – indeed entire business sectors – can be consumed by the flames.

Towards liberalisation

The response emerging from the G7 continues, rightly, to emphasise the potential value of free capital markets. But it also stresses the case for carefully sequenced movement towards liberalisation; greater transparency; enforcement of improved codes and standards; better and, above all, less corrupt governance; and strengthened multilateral institutions.

These ideas were at the heart of a thoughtful speech by Michel Camdessus, managing director of the International Monetary Fund, delivered in London last Friday. They are all sound, so far as they go. But they do not go far enough. At least three concerns remain: the absence of a global lender of last resort: the dangers created by large-scale interbank lending; and management of country-wide bankruptcies.

First, as Alan Greenspan, chairman of the US Federal Reserve, pointed out last week, a financial system in which intermediaries borrow short and lend long is well known to need a safety net. At the global level, however, safety nets contain unpredictably large holes. The resulting uncertainty tends to generate destructive swings in confidence. It remains an open question whether international financial markets can be stable without a lender of last resort and correspondingly tough global supervision.

Market discipline

Second, a particularly vulnerable feature of global finance is the cross-border interbank market. A dangerous aspect of this market is that creditors often regard the liabilities of emerging-market banks as underpinned by sovereign guarantees. The answer, Mr Greenspan suggests, is to impose greater discipline on the market, by charging borrowing banks heavily for the implicit sovereign guarantee and by imposing a substantially higher risk-weighting on interbank loans to risky banks or banks from risky countries.

Finally, the world demonstrably lacks effective and, above all, swift ways to handle sovereign – and large-scale private – bankruptcies. In their absence, restoring the health of debt-laden economies has proved inordinately difficult. What has long proved essential domestically must now be made to work at the global level.

The challenge confronting the G7 countries is to make globally integrated finance both stable and efficient. To meet it, they will feel pressure to replicate the institutional infrastructure they have found domestically necessary, at the global level. If so, creating a stable international financial system would demand more radical change than they now admit.

African muddle and humbug

Robin Cook, the British foreign secretary, is widely regarded as one of the ablest members of the Labour government. He is also one of its biggest disappointments. His clumsy handling of the supposed scandal over arms supplies to the legitimate government of Sierra Leone provides the latest confirmation. He is guilty of pursuing muddled policies, compounded by bad judgment and poor management.

The Sierra Leone affair raises questions on two fronts. First, was the supply of arms and mercenary assistance to the deposed government of that country in contravention of a UN arms embargo? If not, was it nevertheless in contravention of Mr Cook's much-vaunted ethical foreign policy? Second, were ministers or officials at fault for not knowing or not telling about the action? And was the foreign secretary right to blame his officials before he had launched any inquiry?

There is no doubt that the UN arms embargo was intended to bring about the overthrow of the coup leaders who seized power from President Kabbah in May, 1997, and to restore the democratically-elected government. However, the wording of the embargo, which forbids the sale or supply of arms to "Sierra Leone", is ambiguous. The letter of the embargo conflicts with its spirit. But no reasonable person could doubt that its intent is to starve the coup leaders of weaponry, not their opponents.

Inconsistent policy

Mr Cook's critics suggest that condoning the activities of mercenaries, even in support of a legitimate government, is not an "ethical" foreign policy. He denies ever doing so. But even on his own terms, his policy is inconsistent. He is prepared to see a government restored by a Nigerian administration he abhors, but not to hire its own military assistance. Indeed, he defends the presence of a mercenary helicopter on a British warship on the grounds that it had been sub-contracted to the Nigerian army commander in Sierra Leone. If it had merely been contracted by President Kabbah, it should not have been there, he implies. It is a thoroughly muddled policy.

When details of the affair burst into the open last week, Mr Cook's immediate instinct was to deny personal responsibility. He blamed his officials for failing to brief his junior minister, Tony Lloyd. It is possible that officials did brief their ministers inadequately. But Mr Cook did not initially stop to question either the truth of the allegations, or the validity of the exercise to restore President Kabbah to power. He passed the buck.

Predictable areas

In pleading ignorance, Mr Cook scarcely arouses confidence in his control of his department, or that exercised by his junior ministers. He has prided himself on focusing only on the broad strategic questions of policy. For him, that has meant the predictable areas of transatlantic relations, Iraq, and Bosnia. On European policy, complicated by Britain's opt-out on the single currency, and on unpopular areas like Africa, he has steered well clear. Now he blames his department for not telling him. Maybe he simply did not want to know.

Quite apart from Sierra Leone, Africa presents two big policy headaches for the UK government and its ethical foreign policy: Nigeria, where an arbitrary military regime refuses to return to democracy; and Kenya, where the government has refused to clamp down on corruption, and is acting in an increasingly undemocratic manner.

On neither of these questions does Mr Cook or his government appear to have a clear policy. On Nigeria, the foreign secretary talks tough, but fails to follow his words with actions. On Kenya, he seems to have handed over responsibility to Clare Short, the development minister, and the International Monetary Fund.

Mr Cook presents an uncomfortable picture of a senior minister who does not want to be bothered with tiresome issues. Yet when they blow up, he is all too ready to blame his officials. It is no way to manage a department of state.

A fresh gale blowing east

The weakness of the yen, political instability in Indonesia and the slowdown in China's economy have raised the threat of a renewed currency crisis in Asia, says Peter Montagnon

Last week was a bad one for those who have been trying to argue that the Asian economic crisis is under control. Until now the received wisdom has been that the typhoon which ripped through financial markets after Thailand devalued its baht last year had blown itself out, even if a grim struggle remained to repair the region's battered economies.

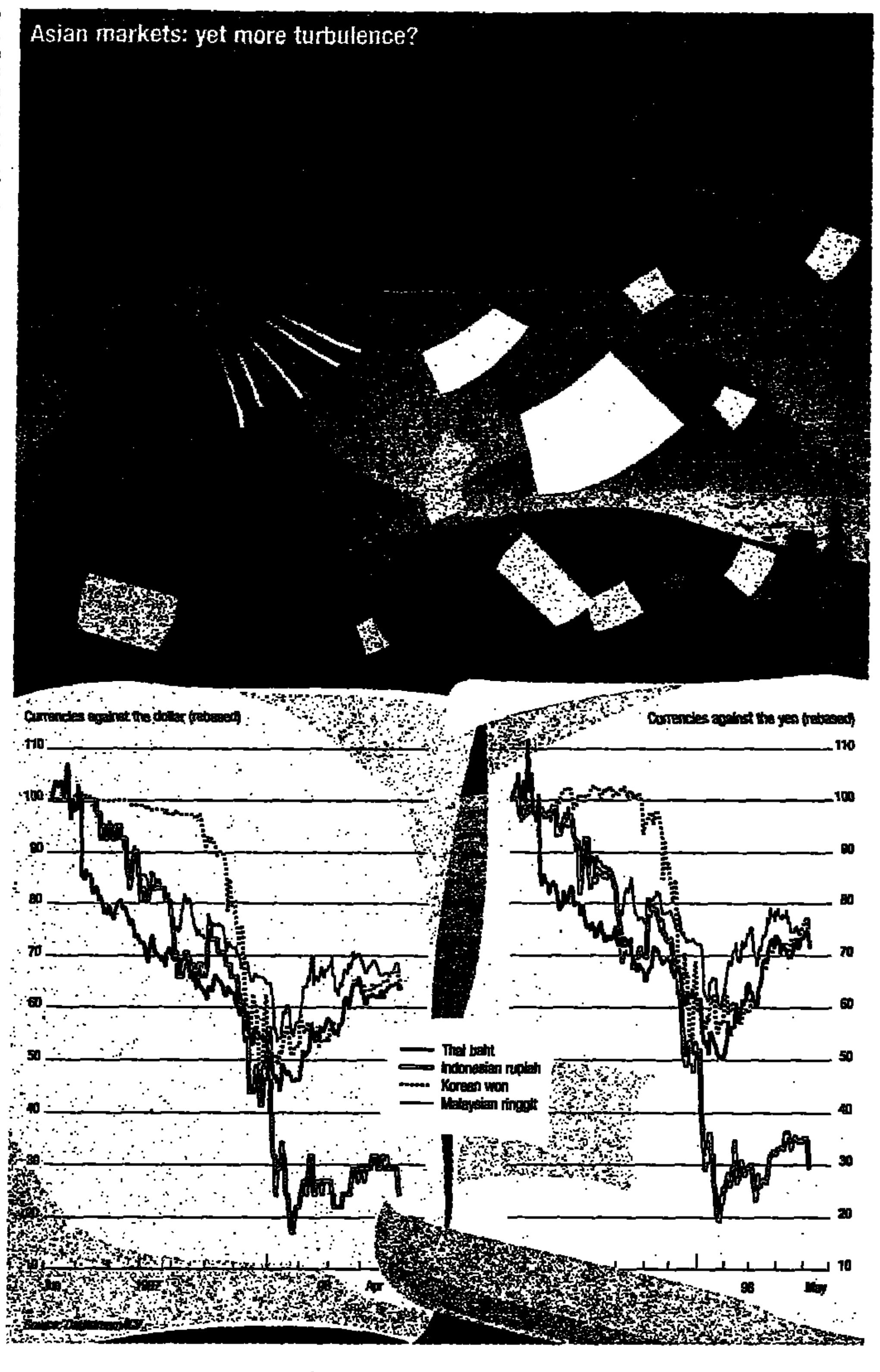
Now equities and currencies have fallen as the markets take stock of the political and social consequences of recession, and some think the hatches must be battened down against a fresh gale.

"We can't rule out the possibility of a new round of currency turbulence," says Ma Guonan, regional economist at Salomon Smith Barney in Hong Kong. The sagging yen, political instability in Indonesia and weakness of the Chinese economy are all possible triggers, he says. But how great is the risk, and how would a new crisis develop?

The benign scenario, preferred by western officials, is that everything remains more or less on track. Asia still has enormous scope for growth, even though a gigantic task of adjustment lies ahead. No one pretended that the crisis would be short-lived or that a serious impact on the real economies could be avoided. "Korea and Thailand are on the verge of enduring [financial] stability, but this is only part of the process and the micro-adjustment challenge is profound," says one senior official.

Besides, there is some good news. Indonesia is back on track with the International Monetary Fund. South Korea has returned to the bond markets for $4bn (£2.5bn). Thai Farmers and Bangkok Bank have both launched large international share issues to help with recapitalisation.

Against that is a sense of mounting alarm at the depth of the recession which is hitting the region. Growth forecasts across Asia are being steadily downgraded as demand continues to slump, the export recovery remains elusive and the credit squeeze continues.



While the IMF is cautiously forecasting that South Korea's economy will contract by 1 per cent in real terms this year, for example, the Institute of International Finance, a Washington-based think-tank owned by global banks and other financial institutions, reckons output will fall by 5 per cent.

The IIF's forecast for a 12.5 per cent contraction in Indonesia is even bleaker, as is its expectation for Thailand (minus 7 per cent). Even Malaysia, where the government is still talking of modest positive growth, will see its economy shrink by 2 per cent this year, the IIF says.

"There's a realisation that these countries are not finding any solution to their problems," says Angus Armstrong, regional economist at Deutsche Morgan Grenfell. "Even in Thailand, which has gone by the IMF book, the cost of capital has not fallen in recent months."

Two problems in particular seem to be besetting Asia's economy. One is that credit has dried up as banks wrestle with bad loan problems and the need for more capital. The other is that, with the notable exceptions of the Philippines and China, export performance has been extremely disappointing despite last year's heavy devaluations.

"The epicentre of the crisis is the domestic banking problem," says Greg Fager, chief Asian economist of the IIF. "The banks are being forced to come to international standards very quickly. That's an an extra hit to the economy because they are retrenching to build their capital and make provisions."

The result is not only a severe credit squeeze which shows no sign of letting up. The difficulties also suggest it will take longer than expected to reform the financial sector because there is bound to be some policy slippage. Mr Fager says the process of financial reform could take "three, four, or even 10 years".

As for trade, the IMF is forecasting a spectacular improvement in South Korea's current account – to a surplus of $23bn from a deficit of nearly $9bn last year – but this will come from a collapse of imports rather than a surge in exports. Even Taiwan, which has hitherto been sheltered from the storm, saw exports fall by 7 per cent in April from the same month in 1997.

Part of the trouble is that exporters in some countries have run out of working capital and the trade finance needed to buy in components. This is particularly true of Indonesia where the financial meltdown has gone furthest. But another aspect is the weakness of the Japanese economy. Japan's role is crucial because it is Asia's largest economy, its largest foreign investor and its largest lender.

'There's a realisation that these countries are not finding any solution to their problems'

Michael Taylor, regional economist at Indosuez W.I. Carr, fears that Asian countries might be strangling their own chances of recovering by paying too much attention to their exchange rate against the dollar when the prospects for the yen are poor. "There is no reason why these weak economies should be tying their currencies to the world's strongest currency," he says.

Efforts to track the dollar are both hampering exports and keeping interest rates higher than they should be, he says. Moreover Asian countries have never run a coherent currency and monetary policy before. "The political pressures generated by trying to run a monetary policy are too great for the system," he warns.

Fears of a sharp fall in the yen strike justifiable terror into Asian governments. For South Korea, whose products like steel, cars and consumer electronics compete directly with Japan, the risks are obvious. The same is true for Taiwan's electronic products which form the backbone of its industry.

Further afield in south-east Asia there is no escaping the consequences of weaker demand in Japan, not only on exports but on foreign investment flows and on lending by Japanese banks which are now struggling to meet capital adequacy requirements.

There is still a chance that the pessimists may be proved wrong. Some officials argue that international markets are simply unrealistic about the speed with which adjustment can take place and economies return to normal. Also, the IMF, which has been accused many times of offering the wrong prescriptions for Asia, has shown signs of flexibility in allowing higher budget deficits as the economies have weakened.

Last week the IMF agreed to allow South Korea to make some further gradual reductions in its interest rates. It is talking to Thailand about ways of reviving domestic demand. It is pleased with the disciplined new monetary policy introduced by Indonesia.

Contrary to the concerns expressed in international markets, the IMF is happy with the progress made by South Korea towards restructuring its financial sector, according to Hubert Neiss, director of its Asia-Pacific division.

If Japan's latest economic stimulus package succeeds in boosting the Japanese economy, some of the pressures now facing Asian countries might abate. If not, there is a risk that a continuing squeeze might turn into a vicious downward spiral with banking systems weakened further as more and more of their corporate customers succumb.

Beyond that is the fear that the slowdown in China's economy might yet unleash another bout of market turmoil. Last week Yi Gang, a senior central bank official, was quick to deny an Australian newspaper report that he had warned of rising pressure to devalue the renminbi.

Chen Yuan, head of Beijing's State Development Bank, reflects the prevailing official view when he responds that exports take up only a small share of China's economy, so devaluation would not help boost exports much. But western economists argue that exports were the main contribution to growth last year.

China's figures will look anaemic if the contribution from net exports diminishes, they say. There could still be a temptation to allow the renminbi to fall back towards Rmb8.7 to the dollar where it ended up after the 1994 devaluation. That risks putting further pressure on currencies, especially that of Hong Kong which is already grappling with an unaccustomed increase in unemployment.

Also, the political strains are now showing clearly in Indonesia where the rupiah has slid in the wake of student riots. "The social problems in Indonesia are threatening to become very, very large," says Andrew Fung, treasury economist at Standard Chartered Bank in Singapore. "This could become destabilising for the rest of the region. Over the past week people have become much more aware of that risk." In the end though, the Indonesian unrest reflects a deeper problem facing the region as a whole.

If the economic squeeze becomes too tight, central banks may ultimately feel there is no alternative but to take their foot off the monetary brakes. While that fear persists markets have grounds for anxiety.

OBSERVER

Sherpa Horst almost there?

Horst Köhler is the hot tip for the still-vacant post of president of the European Bank for Reconstruction and Development. The former state secretary at the German finance ministry and sherpa on monetary union currently serves as head of the German savings bank association; he may well relish a move back onto the international circuit after a rough ride over his aggressive defence of public sector bank subsidies.

Köhler's chances of moving to the EBRD in London have grown as a result of the messy Franco-German compromise over the president of the European Central bank. President Chirac may have lost the battle to block Wim Duisenberg as ECB president, but he still secured the post of ECB vice-president for Christian Noyer and a promise that Duisenberg's successor will be Jean-Claude Trichet.

These two prizes make it much harder for Chirac to argue that France should also grab the EBRD post – a French fiefdom since Jacques Attali became the bank's first president. Until the extraordinary ECB deal, long-serving French finance ministry man Philippe Lagayette had been tipped for the EBRD job.

But Köhler isn't home and dry. The British, Italians and Spanish may view such a deal as too much of a Franco-German carve-up and put forward their own candidate. The Americans, however, want the whole thing settled quickly, so expect some hard bargaining at this weekend's G8 meeting. Any talk about splitting the EBRD job in two to keep warring politicians happy is purely malicious.

Ferdinand's friends

Ferdinand Piëch, Volkswagen's aristocratic boss, and his loyal henchman have waged a quiet, but dogged war in their battle to win Rolls-Royce. Piëch, who's not short of self-confidence, was clearly upset over losing out to BMW boss Bernd Pischetsrieder when the first round of bidding closed. So he waited until the Vickers-BMW talks were over before jumping into action.

The £90m extra he's willing to pay shows how badly he wants to win this time. He's got a couple of hard-hitters alongside him to help him get his way – in the shape of Robert Büchelhofer, who's orchestrating the negotiations, and Jens Neumann. Büchelhofer is a small, gritty man, responsible for marketing and sales, who's been deftly steering VW through the fall-out from the Asian crisis, for which he has special responsibility.

Neumann, a taller, more languid fellow, is Piëch's ideas man, responsible for VW's long-term strategy. Some reckon he could be the man to follow Piëch in the top job – though an alternative view is that whoever assumes the throne will be brought in from outside. Neumann's chances won't exactly suffer, however, if he brings his master his beloved Rolls.

But why does Piëch want Rolls-Royce so badly? To take VW into the luxury car market? Just as likely because he just hates losing and wants to win another fight. Victory would also mean he'd be able to take on rival Jürgen Schrempp at Daimler Benz, who's said he may bring out a super luxury car called the Maybach. Schrempp put Piëch's nose out of joint when Daimler came down-market with the A-Class, so why shouldn't he go up-market to take on Schrempp?

Then again, perhaps he just wants to coast around in a Roller – and still be able to say he's driving the company car.

Orange Goldman

Goldman Sachs has stolen a march on its bluer-blooded rivals and recruited Prince Johan Friso, second in line to the Dutch throne, as an investment banking associate in London.

If the bank's attacked for social climbing, it can point out he's got a business administration degree in aviation engineering from Delft and another in business economics from Rotterdam. He also spent a year at Insead business school in France.

If the prince, 29, is remotely nervous about his new post, Observer hopes he hasn't been reading the Dutch newspapers over the weekend, which carried dire warnings about the regime Queen Beatrix's middle son might encounter. Willem Buiter, the Dutchman who's a Cambridge economics professor and member of the Bank of England's monetary policy committee, was among a list of pundits to point out the long hours and stress he faces at Goldmans.

But Friso is used to the American way of doing things, having spent time studying at Berkeley and a year with management consultants McKinsey. What intrigues the Dutch is how public his Goldman role will be – particularly if it involves hostile takeovers. Such things are unknown in the easygoing Netherlands.

Smoking gun

Can a Cuban cigar save the Middle East peace process? Probably not, but Yossi Sarid, leader of Israel's left-wing opposition Meretz party, has pledged to eat one of Benjamin Netanyahu's big smokes if the prime minister moves the stalled peace process forward.

It's a fairly risk-free wager for Sarid, since Netanyahu has shown no sign of agreeing to a US plan to hand over land to the Palestinians in the occupied West Bank. But a cigar-eating stunt could help clear the air after recent reports that Israeli taxpayers have been financing the PM's costly smoking habit. If Sarid is forced to swallow the stogie, Netanyahu has promised to foot the bill.

The Financial Times

100 years ago

Riots in Italy
Alarming reports come from different parts of Italy of serious disturbances which occurred last night and to-day. The agitation is spreading to provinces which have hitherto remained quiet. In Piedmont, Lombardy and Tuscany the movement has assumed a political character of a most dangerous kind, and the Socialists are exploiting the prevailing dissatisfaction in order to raise ancient grievances. The Government is particularly embarrassed by the menacing attitude of the crowds towards the troops, because the army has hitherto been exceedingly popular throughout the country.

50 years ago

U.S. Railways Seized
Washington, May 10. President Truman to-day seized all United States railways to avert "a nationwide tragedy with world-wide repercussions," which he said would result from the threatened strike of 190,000 railwaymen due to begin to-morrow. He signed an executive order which placed all railwaymen under the orders of himself or the Secretary of the Army, Mr. Kenneth Royall. The men rejected on Saturday a "final offer" of an increase of 15½c an hour.

FINANCIAL TIMES
MONDAY MAY 11 1998

THE LEX COLUMN

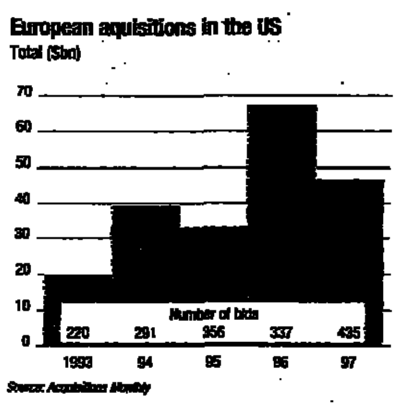
Just add stock

The outperformance of Omnicom, Interpublic and WPP over the past five years has given the lie to the idea that advertising agencies and the stock market do not mix. Now Young & Rubicam, the world number five, is planning to join them. This week's initial public offering, which could raise up to $460m – a third of it for the company – will value Y&R at around $1.5bn.

Once-sleepy Y&R already looks like its larger brethren in some ways. It has strengthened management and tacked faster-growing businesses such as direct marketing, public relations and brand consultancy on to the traditional advertising agency. Cross-selling these services to key accounts like Ford, AT&T and Citibank is helping revenues expand at 13 per cent a year in an advertising market growing at half that rate. But like most private companies, Y&R has room to improve profitability. Its 9 per cent operating margin compares with 12-13 per cent at the peer group and directors' compensation is weighted towards improving margins by a point a year – mimicking WPP's successful initiative.

Advertising volumes remain vulnerable to an economic downturn. And Y&R's management is keeping a controlling 58 per cent stake, which could prevent a takeover. But at a likely starting price of $24 a share, the forecast 1998 price/earnings multiple is 23 times, well below 27-30 times for Omnicom and Interpublic.

At that discount, the shares should do well.



Source: Acquisitions Monthly

European M&A

How ironic that the first big cross-border merger after the euro summit was not an intra-European deal at all. Still, Daimler-Benz's takeover of Chrysler is unlikely – at least for now – to herald a new era of European companies storming the highest echelons of corporate America. At some $40bn, the Daimler-Chrysler deal is not far off the total value of all European acquisitions in the US in 1997. That the largest such deal then was ING's $2.6bn acquisition of Equitable highlights the freak nature of the Jürgernaut.

Largely this is to do with DaimlerBenz's size – as Europe's 14th largest company – and, although less profitable than Chrysler, its higher market rating. Few other European companies could end up in the driving seat of a top-tier transatlantic merger. Disparities in size and market ratings will continue to make it a stretch for European companies to buy market leadership in the US. There are also often accounting and regulatory barriers.

Of Europe's 15 largest companies with "mega-deal" potential, the bulk are international financial or pharmaceutical companies. Although able to make major US acquisitions, they are more likely to pick lower hanging fruit in Europe where the potential for cost-savings is greatest and the Emu-related imperatives strongest. Furthermore, since Jürgen Schrempp's commitment to shareholder value is rare, bridging the transatlantic culture gap still looks a tall order for many.

Share buybacks

One apparently telling piece of evidence that continental European companies are becoming more shareholder-friendly has been the growing number gaining authority to buy back shares, ahead of legal changes. As a result, the level of continental buybacks is forecast to more than double to perhaps $13bn this year.

But it is one thing for a company to include buybacks among its options; it is another for it to carry them out. Pernod Ricard, the French drinks group, bought back shares in the 1980s and has the cash to do more. But its preference is to look for acquisitions. Similarly, several large groups refocusing their portfolios – the Anglo-Dutch Unilever, for instance – make the right noises about share buybacks, but have a big *if*: if no suitable acquisitions can be found in the next few years. Others, such as Metallgesellschaft, of Germany, plan to buy back shares to keep in hand for some future purchase.

What these provisos have in common is that the companies can avoid the scrutiny that goes with seeking fresh funds for expansion. In most cases market support would be forthcoming, but with more mature groups investors may prefer to recycle some cash into their own choices for growth. Companies that hang on to cash also miss an opportunity to reduce their cost of capital. Actions speak louder than words.

UK pubs

Investors in UK pubs ought to be as relaxed as newts. The government seems to have lost its thirst for cutting the drink-driving limit, and licensing hours are to be extended. Whitbread opened the brewers' results season with a double digit earnings rise that should be matched by the majority of the sector. But profit taking has set in on fears the prolonged pouring of investment into pubs would reduce returns.

The overall health of the market is not in doubt. A decline in beer swilling has been more than offset by the growth in eating out – up a third since 1992. Renovated, more appetising pubs have capitalised on this trend. But, with about £1bn a year being ploughed into managed pubs, the market is not growing fast enough to prevent intense competition – especially as economic growth slows.

So, the investment game has switched to picking winners and losers. Top of the pile are the younger focused operators, such as JD Wetherspoon, which can roll out popular formats without being weighed down by an old estate and brewing.

Lagging behind are those, such as some regional brewers, where these two millstones have held back investment in more innovative formats. The big brewers fall in between: the test for them is how tightly they manage the parallel expand-and-cull operations. But surely, as competition takes its toll, the sector will move to the next stage where the strong gobble up the weak.

Indonesia risks further unrest as debt talks falter

By Michiyo Nakamoto in Tokyo and Robert Chote in London

Indonesia and its foreign bank creditors failed yesterday to reach agreement on rescheduling an estimated $68bn in private sector debt, held mainly by Indonesian corporations.

The inconclusive end to three days of talks in Tokyo is likely to be an important cause of instability in Indonesia, where a financial crisis that erupted last year has triggered increasing social unrest.

The creditor banks said in a statement that progress had been achieved towards rescheduling Indonesian banks' foreign currency debt, but more work was required to solve corporate debt problems.

The next round of talks will take place in Frankfurt on May 26.

Several Indonesians died last week in riots sparked by fuel and transport price rises introduced as part of a government reform programme agreed with the International Monetary Fund.

President Suharto, 76, appealed for calm before leaving on Saturday for a one-week visit to Egypt. Students and other protesters across the nation of 200m people are demanding an end to the president's 32-year rule. Though Indonesia's cities were quiet yesterday, students are likely to resume demonstrations tomorrow after a holiday for the birth of Buddha.

Nervous about the spread of social unrest, the world's leading industrial nations stepped up pressure last weekend on Suharto to deliver political and economic reforms.

Gordon Brown, the UK Chancellor of the Exchequer, said after a finance ministers' meeting in London: "The economic reform which is necessary to advance the interests of the poor and the unemployed in Indonesia will have to be matched by the political reform that respects individual rights and by social measures that protect the most disadvantaged in the community."

Bank debt is estimated to comprise only $3.9bn of the $68bn owed and is expected to be dealt with in a manner similar to that applied to South Korea, where $22bn in short-term bank debt was converted into new government-guaranteed loans.

The biggest obstacle to a solution of Indonesia's debt problems is still the corporate sector. However, much work remains to reach agreement on the exchange rate and interest rates at which the debt would be rescheduled.

Foreign banks, especially Japanese ones, are believed to be unwilling to become further exposed to exchange rate fluctuations and want some form of exchange rate insurance. The foreign bank creditors are concerned about who would assume the foreign exchange rate risk.

The original framework for the debt talks called for a rate of 5,000 rupiah to the US dollar, compared with a market rate now of more than 8,000. The rupiah could come under even more pressure if Indonesia experiences further social unrest.

A programme similar to the Ficorca programme used in Mexico's debt crisis is one option, but would mean the Indonesian government would have to shoulder the risk.

Fresh gale blowing east, Page 15

Sinn Féin votes to take seats in Northern Ireland assembly

By John Murray Brown in Dublin and Liam Halligan in London

Sinn Féin, the political wing of the IRA, voted amid emotional scenes yesterday to take seats in a Northern Ireland assembly which republicans have dismissed for 70 years as a partitionist parliament.

Serving IRA prisoners, including the four-man Balcombe Street Gang, who planted a series of bombs in mainland Britain in the 1970s, were on special day release to join the Sinn Féin leadership on the platform at a conference in Dublin where delegates overwhelmingly backed the Ulster peace deal.

Some 331 of the 350 delegates voted to participate in an assembly and called for a Yes vote north and south of the border in the referendum on May 22.

Gerry Adams, the Sinn Féin president, said: "The vast majority of people in Ireland want peace. Peace demands justice. Nationalists, including those with reservations about the outcome of the talks process, want to exhaust every possibility of achieving peace."

Martin McGuinness, Sinn Féin's chief negotiator, said: "If we have problems, the problems facing unionism are a hundredfold what we face today."

Separately, Gordon Brown, UK Chancellor of the Exchequer, confirmed he will unveil tomorrow an assistance package exceeding £100m ($167m) in a bid to boost Northern Ireland's economy and underpin peace.

"I will be making announcements about how we can build prosperity through peace and build peace through prosperity," he told BBC TV.

Mr Brown said the package was designed to reduce unemployment by encouraging new business to invest in Ulster, as well as providing help for those already established.

"Unemployment is clearly a route to social tension as well as bad for the economy," he said.

Several delegates at the Sinn Féin conference justified the change in the party's stance as a way of bolstering its electoral support, some predicting that Sinn Féin could emerge as the largest nationalist party at next month's assembly elections.

Jim Gibney, a member of the party's policy-making executive, said: "The title deeds for the union no longer lie in 10 Downing Street, they lie in the hearts and minds of the unionist people."

Mo Mowlam, the Northern Ireland secretary, welcomed the move and paid tribute to Mr Adams.

But she said: "It also means Sinn Féin has signed up to a process in which there is no place whatsoever for violence or the threat of violence."

Meanwhile, the self-proclaimed "Real IRA" said it was responsible for the Saturday night mortar attack in Beleek in county Fermanagh. Over the weekend the group, which security officials estimate may have as many as 150 activists, warned that it would target the UK mainland.

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Lesson in democracy: Viktor Orban, chairman of Hungary's centre-right opposition party, casts his vote with help from his son, Gaspar. Page 2

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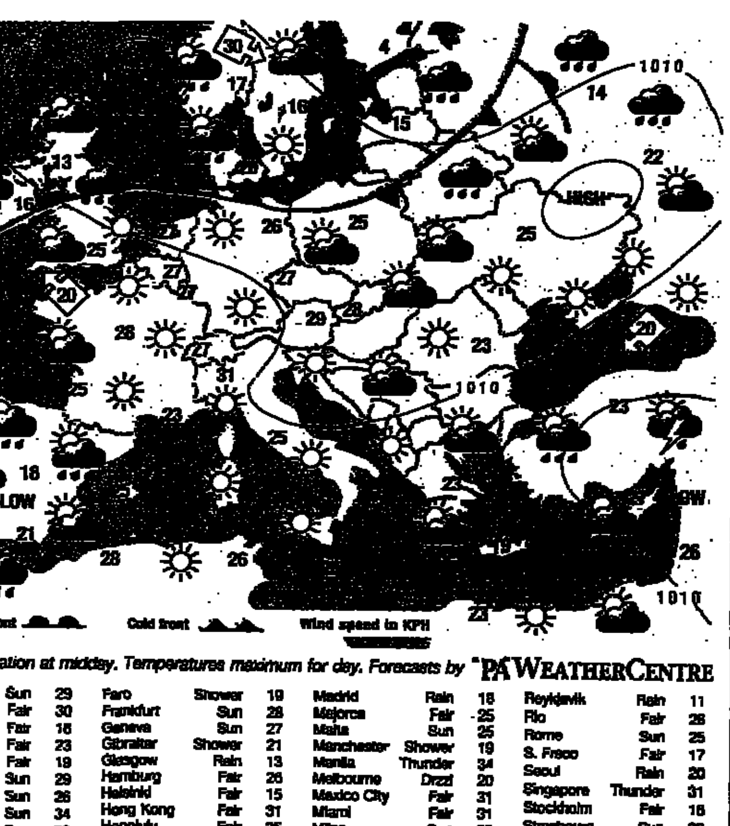
FT WEATHER GUIDE

Europe today

Most of central and north-west Europe, including Italy, will be hot with plenty of sunshine and only isolated thundery showers. Spain and Portugal will be unsettled with scattered thundery downpours. Cyprus will be mostly hot and sunny, but Greece will be showery. Southern Scandinavia will be bright, but Denmark and southern Sweden will have showers.

Five-day forecast

Spain and Portugal will remain unsettled and thundery. Central and western Europe will stay very warm with a good deal of sunshine, but scattered thunderstorms will become more likely. High pressure will build across Scandinavia, bringing plenty of sunshine as well as cold air to north-east Europe.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	36
Accra	Fair	31
Algiers	Fair	28
Amsterdam	Sun	27
Athens	Fair	23
Atlanta	Fair	28
B. Aires	Cloudy	24
B.ham	Fair	20
Bangkok	Fair	36
Barcelona	Fair	22
Beijing	Fair	23
Belfast	Rain	14
Belgrade	Fair	26
Berlin	Sun	28
Bermuda	Fair	26
Bogota	Shower	19
Bombay	Sun	34
Brussels	Sun	27
Budapest	Fair	29
C.hagen	Shower	20
Cairo	Sun	29
Caracas	Fair	30
Cardiff	Fair	18
Casablanca	Fair	23
Chicago	Fair	19
Cologne	Sun	29
Dakar	Sun	26
Dallas	Sun	34
Delhi	Sun	33
Dubai	Sun	37
Dublin	Thunder	16
Dubrovnik	Fair	24
Edinburgh	Rain	13
Faro	Shower	19
Frankfurt	Sun	28
Geneva	Sun	27
Gibraltar	Shower	21
Glasgow	Rain	13
Hamburg	Fair	26
Helsinki	Fair	15
Hong Kong	Fair	31
Honolulu	Fair	25
Istanbul	Shower	20
Jakarta	Fair	33
Jersey	Fair	18
Johannesburg	Fair	22
Karachi	Sun	37
Kuwait	Sun	44
L. Angeles	Fair	20
Las Palmas	Fair	23
Lima	Cloudy	26
Lisbon	Shower	17
London	Sun	25
Lux.bourg	Fair	27
Lyon	Sun	27
Madeira	Shower	19
Madrid	Rain	18
Majorca	Fair	25
Malta	Sun	25
Manchester	Shower	19
Manila	Thunder	34
Melbourne	Drzzl	20
Mexico City	Fair	31
Miami	Fair	31
Milan	Sun	29
Montreal	Fair	20
Moscow	Fair	22
Munich	Sun	27
Nairobi	Thunder	26
Naples	Fair	26
Nassau	Sun	31
New York	Shower	15
Nice	Sun	23
Nicosia	Sun	27
Oslo	Fair	17
Paris	Fair	28
Perth	Cloudy	25
Prague	Sun	28
Rangoon	Fair	34
Reykjavik	Rain	11
Rio	Fair	28
Rome	Sun	25
S. Frsco	Fair	17
Seoul	Rain	20
Singapore	Thunder	31
Stockholm	Fair	18
Strasbourg	Sun	29
Sydney	Fair	20
Tangier	Cloudy	21
Tel Aviv	Fair	26
Tokyo	Fair	21
Toronto	Fair	17
Vancouver	Shower	15
Venice	Sun	27
Vienna	Sun	29
Warsaw	Fair	25
Washington	Shower	18
Wellington	Shower	12
Winnipeg	Shower	19
Zurich	Sun	28

FINANCIAL TIMES
COMPANIES & MARKETS
MONDAY MAY 11 1998
Week 20

INSIDE

COMPANIES IN THIS ISSUE

MARKET STATISTICS

Liffe stakes its claim to euro derivatives

New equities future will compete with Terminbörse

By Edward Luce

The London International Financial Futures and Options Exchange will tomorrow launch a battle for control of Europe's equity derivatives market when it lists a futures contract on the FTSE Eurotop 100 index.

The move will be followed by the launch of the Stoxx 50 future by the Deutsche Terminbörse, Liffe's German-based rival, next month. Like the Eurotop 100, the Stoxx 50 is compiled on a selection of the most liquid European corporate listings. "This is where the battleground will be for the equities derivatives market after monetary union," said an official at Liffe.

Both equity futures will be denominated in ecu and will convert into the euro on a one-for-one basis after 1 January next year. They will be the first pan-European derivatives to be denominated in the euro.

Two New York-based exchanges – Amex and Comex – offer dollar-denominated derivatives contracts in the Eurotop 100, although neither has achieved much liquidity.

Officials at both Liffe and the DTB, which are locked in a fierce battle for control of the 10-year euro-denominated debt futures market and for control of the short-term interest rate futures market in euros, believe there will be strong demand for a pan-European equity derivatives contract.

Recent surveys show most European fund managers will look at European stocks on a sectoral rather than a national basis after monetary union. This will create a need for mutual funds to hedge their cash exposure to equities in the derivatives market.

Officials at Liffe refused to estimate how much turnover they expect in the new contract. But the future on the FTSE 100 index contract has an average daily turnover of 20,000-25,000 contracts.

Liffe also announced plans to launch a new euro-denominated contract in the ten-year debt sector. The contract, which will be based on the swaps differential between 10-year floating and fixed rate money, will compete with the DTB's 10-year future on the German government bond. Liffe will also retain its 10-year German bond future.

The Amsterdam Exchange, which originally devised the Eurotop 100, will tomorrow simultaneously launch an option based on the Eurotop index in co-operation with Liffe.

CHRYSLER'S CHAIRMAN SAYS HE KNOWS OF SIX OTHER SETS OF NEGOTIATIONS WITHIN THE INDUSTRY

Motor merger talks set to gather pace

By Haig Simonian and Nikki Tait in Detroit

Secret talks between motor industry leaders about further international consolidation are expected to accelerate in the wake of last week's announcement of a $38bn merger between Daimler-Benz of Germany and Chrysler of the US.

Bob Eaton, Chrysler's chairman, said he knew of six other sets of negotiations under way. Although talks between General Motors and South Korea's Daewoo, and Ford's discussions with both Kia and Samsung, were public, others remained secret, he implied.

Mr Eaton declined to say whether Daimler-Benz had plans to buy Nissan's commercial vehicles division in Japan. Nissan is one of the country's leading light and heavy truck makers, and its activities would fit in well with the German group's sizeable commercial vehicle aside.

Speaking publicly for the first time in Chrysler's home town, Mr Eaton provided fresh details of what the merger meant for both companies.

He confirmed Daimler-Benz would probably cancel development of a minivan, a multi-purpose vehicle. Daimler-Benz had been expected to introduce such a vehicle as a second model range at its new Alabama plant.

Chrysler makes one of the world's largest and most popular minivan ranges and the project would be largely redundant, although Mr Eaton did not exclude co-operation on future vehicles.

But he stressed that Chrysler would not "badge engineer" for Daimler and that "a substantially different vehicle" would have to be involved.

He also said Mercedes-Benz might move its new North American headquarters from New Jersey to Detroit.

Another immediate synergy would come in engineering, where Chrysler could draw on Daimler-Benz's massive resources. Chrysler also hoped to benefit from Daimler's strong position in the development of environmentally friendly fuel cell technology.

Mr Eaton said the merger could create US jobs by raising output at both companies. While Daimler needed more capacity for its successful M-class sports utility vehicle, made in Alabama, Chrysler expected to increase sales of US-made products in Europe, South America and Africa.

Of the $1.4bn savings expected in the first year, about $800m would come from joint purchasing of materials and increased sales.

The facts at his fingertips: Chrysler's chairman Bob Eaton addressing a press conference at his head office in Michigan. Picture Reuters

Credit Suisse arm seeks more private investors

By Christopher Brown-Humes in London

Credit Suisse Asset Management, the fund management arm of Credit Suisse, will today signal a big push to recruit more private investors as customers, alongside its strong institutional investor base.

It will announce the appointment of Robert Kosrovani to a newly created position as head of global retail activities.

Mr Kosrovani said CSAM, which employs more than 1,400 people, wanted the private investor business to contribute 50 per cent of revenues within five years. Last year it accounted for some 30 per cent of revenues of $517m. CSAM has $184bn under management, including retail funds of $54bn.

The plans include a big drive to expand the group's retail presence in Europe. It will also target private investors in the US for the first time. The strategy will be based around organic growth rather than acquisitions, although these are not excluded.

Mr Kosrovani said CSAM expected retail to be the fastest growing segment of the market, helped by the trend towards defined contribution pension schemes and away from pay-as-you-go pension systems.

He said: "Defined contribution is going to be by far the largest source of new money coming into the marketplace." Profit margins on funds managed for private investors were superior to those in the institutional segment, he added.

The company believes its strong brand and financial strength will assist its ambitions. The strategy involves distribution through intermediaries – such as brokerage houses, banks and independent financial advisers – rather than going direct to individuals.

"The key to our success will be providing a spectrum of investment alternatives and consistent performance. We will also need to exploit new distribution channels," he said. The drive would be co-ordinated closely with Winterthur, a Swiss insurer owned by Credit Suisse, to maximise the effectiveness of distribution through the assurer's sales channels.

Thomson Travel offer set for top of range

By Scheherazade Daneshkhu, Leisure Industries Correspondent

Thomson Travel Group, the UK's largest package holiday company, is today expected to price its offer of 1bn shares at 170p – the top of a 140p-170p range – following strong demand from retail and institutional investors.

The initial public offering, heavily oversubscribed, is thought to have attracted more interest from private investors than any since Railtrack, the owner of Britain's rail infrastructure, was privatised in 1996.

The £1.7bn ($2.83bn) proceeds from the sale will go to Thomson Corporation, the Canadian publishing group that is selling the business to concentrate on its professional information and publishing activities.

The Thomson family, which owns 70 per cent of Thomson Corporation, has also subscribed for a 20 per cent stake in the business in which conditional dealings begin today. Formal admission to the London Stock Exchange takes place next Monday.

The offer is believed to have been more than three times subscribed by private investors, many of whom were attracted by the offer of a 10 per cent discount on Thomson Holidays. Thomson is thought to have decided on a flat allocation of £500 for the 500,000 or so private investors.

Demand from institutions is also thought to have been more than six times subscribed. This followed a global book-building exercise – by which the price is arrived at by assessing investors' bids – by SBC Warburg Dillon Read.

The offer was marred by complaints from some private investors that they had not received application forms in time to meet Thursday's noon deadline, although they had registered in good time.

Some of the five share shops handling the registrations blamed the company and its advisers for the three-and-a-half day turnaround between the close of registration and the deadline for application forms to be received, particularly since one day was a Bank holiday. The Securities and Futures Authority, which regulates brokers, is understood to be investigating complaints against the shops.

Thomson said on Friday that those who registered but did not apply in time qualify for the holiday discount until the end of the year. They will continue to be entitled to it as long as they buy the minimum £500 allocation of shares in the market.

Last year Thomson took 3.7m UK tourists abroad and made pre-tax profits of £112.4m. Analysts forecast underlying pre-tax profits of £125m this year.

PETER MARTIN
GLOBAL INVESTOR

A collective squeal

Will US government action against Microsoft puncture the bull market?

If you listen to the dark murmurings of Microsoft's allies, it might. Eckhard Pfeiffer, chief executive of Compaq Computer, said last week: "An injunction delaying Windows 98 would clearly have a negative impact on the country as a whole."

Professor Gregory Mankiw, an economist at Harvard, said it would "throw sand into the gears of human progress". Greg Maffei, Microsoft's chief financial officer, also stressed the economic impact, citing the 4m Americans who develop Windows software or work in the computer services industry.

This is a propaganda battle laden with gloomy predictions. Larry Ellison of Oracle, one of Microsoft's most outspoken opponents, last year summed up the issue as the choice between the information age or the Microsoft age. "If it's Microsoft versus mankind," he said, "I'm on team mankind."

Probably, Pfeiffer's suggestion is no more than similarly heated rhetoric. After all, the justice department has been keen to stress that its aims, in the Microsoft case, are narrow: it has no intention of trying to break the company up, as in the two famous cases launched in the 1970s against IBM and AT&T.

Instead it appears to be aiming, in a suit expected to be filed this week, merely to force Microsoft to offer computer manufacturers the option of a version of Windows 98, its new operating system, that does not include Microsoft's own internet browser.

And even if the suit were to force Microsoft to delay the launch of Windows 98, set for next month, the impact would be more limited than Microsoft's allies assert, because the program itself is of limited significance. As Mr Maffei put it last year: "The reality is that none of us is projecting that Windows 98 will be a blockbuster *à la* Windows 95."

But if the sky is unlikely to fall when the long-awaited suit is filed, the warnings offer an insight into an under-rated market risk: the fragility of the personal computer market, which has been a powerful economic and financial motor for American prosperity for nearly two decades.

In one sense, the PC industry is stronger than ever before. It has seen off the threat from Larry Ellison's rival offering, the network computer, which partly explains Mr Ellison's animus against Microsoft. It is shipping 90m boxes a year worldwide. It has given birth to the internet boom. It is colonising adjacent markets, for computer workstations and workgroup computing. And it remains an industry in which the value added is created in the US, by Intel and Microsoft.

The industry is vulnerable, however, to price erosion. The rush into PCs at prices below $1,000, partly driven by the depreciation of currencies in many parts of Asia, where much of the industry's low-value activity is based, is putting a sharp squeeze on revenue growth.

Dataquest, the market analysts, predict worldwide shipments of PCs will grow by nearly 16 per cent this year, while revenue will grow by just over 6 per cent. In the US, revenue growth is put at only 3 per cent – essentially flat in real terms.

The industry has been pushed into price-cutting partly because of the need to find new markets as existing ones become saturated. Investors have so far been only mildly worried. Chipmaker Intel is trading at $84 1/16, $18 below its 1998 peak, and Microsoft, at $85 3/4, is $14 below its high for the year.

Without the legal threat to Microsoft, the difference with Intel would be more marked: a new PC needs a copy of Windows, but it does not necessarily need an Intel processor.

Microsoft is not exempt from risk, however. As Mr Maffei said last year, Microsoft's best customers, big US companies, are essentially buying replacement rather than first-time PCs. "You could be very worried about desktop saturation when you look at these numbers. If they just replace the PC, will they necessarily replace the software, particularly in large corporate decisions?"

Though a justice department suit against Microsoft would not cause the economic damage that the company's allies suggest, the PC industry is vulnerable to such wider market forces. Signs of serious further downward pressure on revenues or volumes – perhaps caused by the worrying build-up of PC inventory in the US – would certainly hurt the sector.

That would have a more damaging effect on the US economy and stock market than anything the justice department is planning.

peter.martin@ft.com

AIRPORTS AWARD OF RETAILING ACTIVITIES AT NEWARK REACHES FINAL NEGOTIATING STAGE

BAA looks set to secure contract in US

By Michael Skapinker, Aerospace Correspondent

BAA, the UK airports group, is believed to be close to winning a contract to run the retailing activities of Newark airport in the US. The airport, which serves the New York area, would be BAA's biggest success so far in its drive to expand internationally.

The Port Authority of New York and New Jersey, which owns the airport, expected to award the retailing contract within a month. The authority said it was in final negotiations with a single company, which it declined to name. However, industry observers believe it is BAA.

BAA, which runs seven UK airports, including London's Heathrow and Gatwick, was privatised in 1987. It has since become one of the world's most highly regarded operators, along with Amsterdam's Schiphol airport and Airport Group International of the US.

The three have been leading contenders in contests to win airport management rights from governments and local authorities which have decided either to privatise their airports or put some activities out to contract. Analysts say there are at present up to 200 airports worldwide looking for private sector involvement.

BAA began its international expansion in 1992, when it was asked to manage retailing at Pittsburgh airport. Since then, it has increased sales per passenger at the airport from $2.40 to $7.10. Total retail sales at the airport have grown from $20m to $72m. BAA said it wanted to use Pittsburgh to demonstrate its skills to other airport owners.

In 1995, BAA won a 10-year contract to run all the activities of Indianapolis airport and last year acquired a controlling interest in Naples airport. In Australia, it is part of a consortium selected to run airports in Melbourne and Launceston, Tasmania.

However, the group has had some setbacks in the past few months. It failed to win the right to run other Australian airports. It was also beaten by Rome Airport in a contest to manage South Africa's international airports. BAA said it was not prepared to match Rome's bid as it did not believe it could generate a commercial return on it.

Newark, however, would be a far bigger prize. The airport, which is the 16th largest in the world, handled 31m passengers last year. This is about the same number as New York's JFK and more than any of BAA's UK airports apart from Heathrow.

Campaigners seek to raise ethical issues

By Gautam Malkani

The World Development Movement, the third-world campaign group, will today target five multinational companies with a campaign to encourage them to "clean up their act" in developing countries.

A week of protests is planned for the annual meetings of Rio Tinto, the Anglo-Australian mining company, Premier Oil, and Peninsular & Oriental Steam Navigation Company. As part of its "People Before Profits" campaign, the group also announced plans for a demonstration at Nestle's UK head offices next week and demonstrated outside Shell's annual meeting on Friday.

Executives of two of the target companies argued that some of the protestors were ill-informed and misguided. But the campaign reflects a trend among pressure groups to use company meetings to highlight their concerns.

"Lobbying annual meetings is the only way at present to hold a board of directors to account. It's very evident that companies are responding to the publics' concerns, and shareholders are aware of the need for a positive image of their company," said Sue Townsend, of the WDM.

The campaign will highlight alleged abuses of workers' rights, human rights' and environmental damage in developing countries and will call on multinationals to recognise responsibilities.

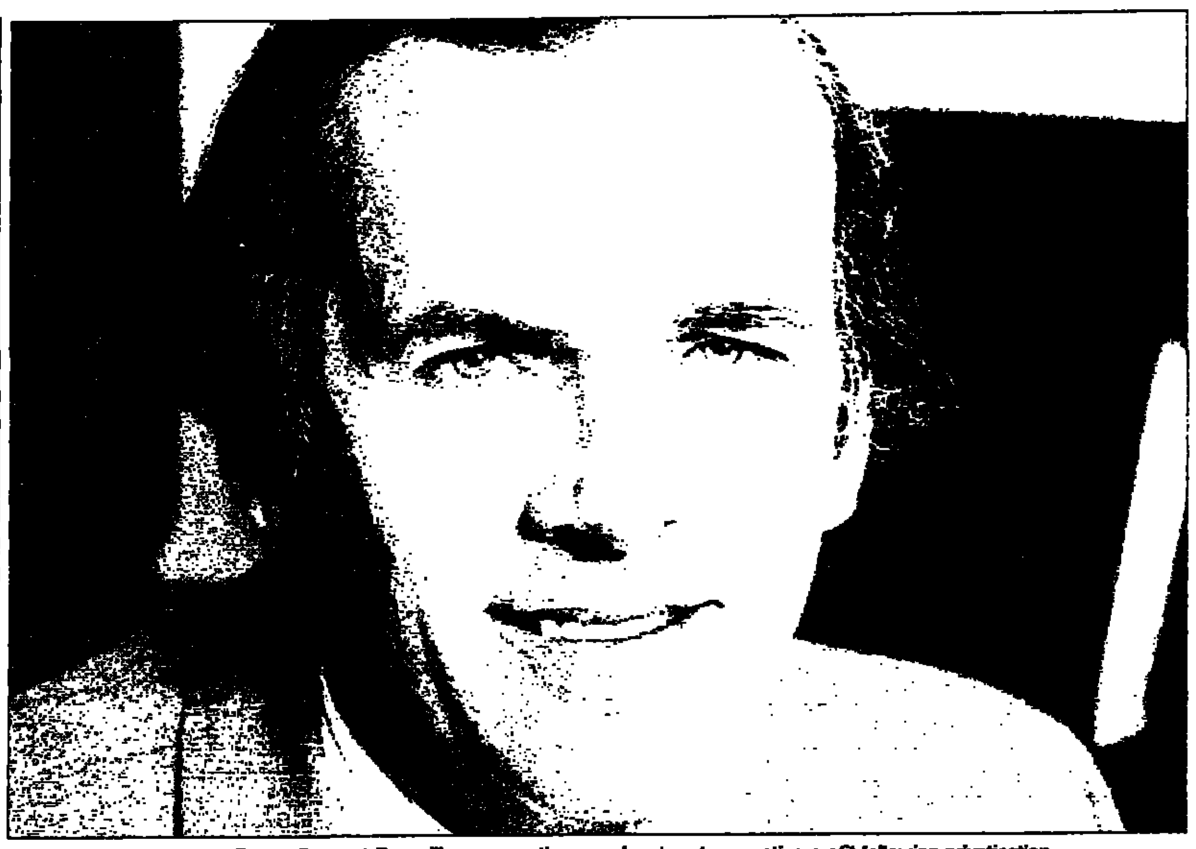
The WDM said it would not disrupt meetings, and instead would both lobby shareholders to challenge directors and attend the meetings of Rio Tinto, Premier Oil, and P&O, where it held proxy votes.

Executives at Rio Tinto and P&O denied any wrongdoing. Rio Tinto is being targeted because of allegations that land rights have been violated at the Grasberg copper and gold mine in Indonesia.

John Huges, a Rio Tinto executive, said: "There have been five independent inquiries into human rights in that area ... All of them have found no involvement by Freeport [the US company operating the mine in which Rio Tinto has a 13 per cent interest]. We have invited the WDM to come and talk to us about their concerns for a number of years now."

The WDM will also press P&O to abort plans to build the largest port in the world in India.

"There are not any 'plans'," said Peter Smith, a P&O spokesperson, "The state government invited us to conduct a feasibility study for the port. Nobody yet knows whether it's feasible or whether the government wishes to proceed."



Turning to a new chapter: Rupert Pennant-Rea will announce the group's return to operating profit following privatisation

Float plan for Stationery Office

By Christopher Adams

The Stationery Office – the recently privatised incarnation of Her Majesty's Stationery Office – plans to float on the stock market.

HMSO, the government printer and publisher, was sold to a consortium led by Electra Investment Trust and Robert Fleming two years ago. It announces a return to the black today, with 1997 operating profits of £13.1m on turnover of £264.1m, compared with a loss of £10.4m last time.

The group, which has former deputy governor of the Bank of England Rupert Pennant-Rea as chairman, wants to complete another year of profitable trading before it seeks a listing.

It is likely to appoint advisers at the end of this year and could come to the market by the end of 1999.

Other members of the consortium which bought HMSO, are Mercury Asset Management, Intermediate Capital Group and the group's own management.

The reorganisation that followed privatisation has focused the group on two core activities: publishing and business services. Published titles include *Hansard*, *Highway Code*, and *Whitaker's Almanac* which was acquired last year.

Bob Thian, chief executive and previously the chief executive of North West Water, now part of United Utilities, said the turnround had been achieved by cutting costs and eliminating or renegotiating lossmaking contracts.

Efforts to reduce costs included making 1,000 of the HMSO's 2,700 staff redundant. The business had previously comprised 14 different divisions.

In addition to the acquisition of *Whitaker's Almanac*, the Stationery Office has also won a 10-year contract from the UK Passport Agency to supply digitally-produced passports.

This will require investment of £8.6m.

Drugs industry consolidates

By Gary Mead

Consolidation in the global pharmaceutical industry is rapidly accelerating, with the number of recorded mergers or acquisitions in 1997 up 49 per cent over the previous year, according to a survey published by Price Waterhouse this week.

Graeme Pike, a partner at Price Waterhouse and author of the survey, said: "Consolidation has been at a fast pace and will continue to be so because even the largest companies still have only a 5-6 per cent world-wide market share. There is still plenty of scope for cost reductions and synergies to be achieved in sales and marketing."

He predicted further mergers among the top 25 or so pharmaceutical companies.

The survey, which is intended to become an annual publication, found that although the number of M&As grew substantially in 1997, the overall disclosed value of deals fell 13 per cent, to $46.7bn, against $53.7bn in 1996. This drop is largely due to the lack last year of a deal the size of the 1996 merger of Ciba and Sandoz (to form Novartis), worth $27.5bn.

The biggest deal in 1997 was the $10.2bn takeover by Roche of the privately-held Bermuda-registered diagnostics business Corange; the average value of an individual deal last year was $253m.

The pharmaceutical industry is also likely to witness unprecedented sales growth in the next two years.

Estimated world-wide sales of the pharmaceutical industry were $317bn in 1997, which, the survey suggests, will expand to $357bn by the turn of the century.

The report concludes that as the pharmaceutical industry remains "very fragmented," with considerable over-capacity in manufacturing, and faces "continued pressures from government and private health reforms," the prospect is for M&A activity to continue at a rapid pace.

● Global *Market and Deal Survey: Pharmaceutical Sector. Price Waterhouse, No.1 London Bridge, London SE1 9QL. Telephone 00 44171 939 3000.*

ING Barings to Norilsk's aid

By Kenneth Gooding, Mining Correspondent

The ING Barings banking group is arranging $110m (£66m) of export credit finance for Norilsk, the mining group that produces most of Russia's nickel, copper, platinum and palladium.

Norilsk's cash flow has been hit again this year by bureaucratic and political wrangling that has held up permits for the export of platinum group metals. Russia's annual platinum and palladium exports are worth about $850m.

ING Barings' one-year export credit facility will be secured against copper exports, which are flowing, and the banking syndicate will be repaid directly by western buyers. Norilsk will pay 4 per cent above the London interbank rate.

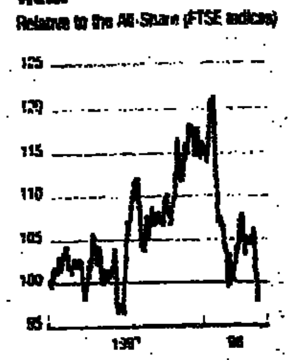
ING Barings says it expects to syndicate the loan by the end of this week.

COMMENT

UK Coal

The CBI is right to round on the government for its old-fashioned rigging of the UK energy market. Banning new gas-fired power stations for up to five years to save the uncompetitive deep-mined coal industry is a cure deadlier than the disease. Politically-sensitive coal jobs may be protected – for a while – but only at the expense of equally valid jobs and inward investment in the cheaper and cleaner gas-fired sector. Artificially-restraining new entry into the generation business will only buttress the National Power/PowerGen virtual duopoly. And making the generators buy largely uncompetitive UK coal instead of cheaper imports will ultimately drive up consumers' fuel bills. Since the security of supply issues seem negligible, the government should dethrone old King Coal and allow free competition between energy sources.

Water
Relative to the All-Share (FTSE indices)



Source: Datastream/ICV

UK water stocks

Investors in water stocks have received an unwelcome dousing at the hands of market bears. Since January, the sector has underperformed the market by 14 per cent, surrendering virtually all of last year's outperformance. The correction was overdue. Last year, the stocks enjoyed ideal macro-economic conditions, their defensive qualities coming into their own as sterling soared and 10 year bond yields fell. That combined with strong dividend growth saw total shareholder returns grow well in excess of the market. The latter will not go unnoticed by the regulator, and fears over his forthcoming price review have shaken sentiment. But is the slide in the shares overdone? Probably not. At the start of the year, the sector traded on a near-30 per cent premium to its regulated asset base, an unsustainable level given the worsening regulatory outlook.

Barring a disastrous review, there should be real dividend growth of up to 2 per cent a year in the period 2001-2005, after which the sector is forecast to go ex-growth. This means the shares should be moving towards quasi-bond status. Some, however, look like getting there too early, with a prospective yield close to gilts in 2001. At current share prices, there should be sufficient yield support relative to gilts to protect against another bout of dramatic underperformance.

Rolls-Royce may meet VW

By John Griffiths

Aero-engine maker Rolls-Royce yesterday said it was ready to meet Volkswagen at any time to discuss how VW would protect the Rolls-Royce name if the German carmaker was successful in its £430m ($714m) bid to buy Rolls-Royce Motor Cars from UK engineering conglomerate Vickers.

"Obviously, we have a clear preference for BMW, with which we have had a 10 year partnership in the aerospace field. But we have not ruled VW out and are prepared to enter negotiations", a spokesman said.

The aero-engine maker, which owns the rights to the Rolls-Royce name, said it was ready to meet VW before or after VW's offer for the carmaker is put to Vickers' shareholders on June 4.

The Vickers board's decision to recommend the offer, reversing its previous support for a £340m bid by BMW, has infuriated the Bavarian car maker, which is threatening to cut off the engines it supplies for two recently launched models if VW's offer is accepted.

The aerospace partnership between BMW and Rolls-Royce Plc has prompted suggestions that the aero-engine maker may ask VW for up to £100m as a licence fee for using the name if the VW offer is successful.

The company said it had "no knowledge" of such figures. "We are more concerned with how precisely the name would be safeguarded than with the size of licence fees," said an executive.

BMW has not ruled out increasing its own offer, but some industry analysts say the planned merger between car makers Daimler-Benz of German and Chrysler of the US, heightened the challenge across most of its model range and markets.

"On reflection over the next few days, Mr Pischetsrieder may well conclude that there is now an urgent need to reinforce BMW's existing businesses," said Garel Rhys of Cardiff Business school.

Fortis to expand in Asian bancassurance

By Christopher Adams, Insurance Correspondent

Fortis, the Belgo-Dutch financial services group, plans to build a strong "bancassurance" presence in Asia with a series of acquisitions.

The group said it was in discussions with several potential partners in Thailand, Malaysia, Indonesia and the Philippines.

William Courtauld, chief executive of Fortis's Singapore-based Asia office, said that the recent financial turmoil in the region had thrown up opportunities to gain a foothold in countries where the demand for financial services was expected to grow rapidly.

"We are talking to a large number of banks and insurance companies in each of the four economies," Mr Courtauld said. "We'd rather acquire interests than set up a grassroots operation, although we could set up in partnership with a bank to do business with its customer base."

He said the group did not want only to supply capital to local businesses, but to export its own skills.

Fortis is one of Europe's biggest insurance companies with Ecu150bn ($167bn) of assets and Ecu21bn of revenues.

However, it has also made inroads into bancassurance, using banks as distributors to market its insurance products.

It has a partnership with La Caixa, one of Spain's biggest banks, and about half its new life assurance business in the Benelux countries last year came through banking channels.

"We have traditionally been centred in Europe with a certain amount of activity in North America," said Mr Courtauld.

"Asia is a very competitive marketplace for new entrants and whatever we did would have to be well-adapted to the country we entered. Only a small number of companies have made a success of bancassurance."

Spending on insurance in south-east Asia is low by the standards of more developed economies elsewhere.

Mr Courtauld said that China, where a few western insurers including Royal & Sun Alliance have been granted licences to operate, was also an attractive market, but difficult to penetrate.

Fortis is already active in the region through its MeesPierson and Fortis Investments subsidiaries. It also owns 40 per cent of Keppel, the Singapore-based banking and insurance company.

It is not the only European insurer to have stated its interest in Asia. France-based Axa-UAP, the world's second biggest insurer, is seeking to establish a presence in Japan, where several life assurance mutuals may need strong partners.

GOVERNMENT BONDS IMPROVED BUDGET DEFICITS HERALD REDUCED ISSUANCE

US scales back short-term auctions

By Edward Luce and Vincent Boland

This week the US Treasury will conduct what could be its last auction of three-year bonds.

The $10bn auction, which is already smaller than similar offerings in the past, will be the last three-year auction for the indefinite future, the Treasury said last week, as it also announced plans for a significant scaling down in the volume of new issues of five-year bonds.

The move to close the three-year sector is not unprecedented. In the past few years the Treasury has discontinued four, seven and 20-year note auctions. But the latest closure is more significant because it was made in anticipation of a US budget surplus in 1999, the first for 29 years.

The move also anticipates what is happening in the government bond markets of other developed countries.

"The general trend is towards much lower budget deficits and therefore much lower government bond issuance," says Mark Cliffe, international economist at HSBC Markets.

In the UK, for example, the achievement of a lower than expected public sector borrowing requirement for 1998 could actually lead to more gilts being redeemed than issued in 1999. Some observers expect the size of the UK gilts market to shrink by around £6bn.

Much the same trend is being seen in Europe, where budget deficits have been roughly halved over the last four years, to an average of less than 3 per cent of gross domestic product, to ensure entry into European monetary union.

Few analysts, however, expect European governments to follow the US in closing down key maturities.

One reason for this is that Germany and France are battling to establish the benchmark yield curve for the forthcoming euro-denominated government bond market, which will be slightly bigger than the US Treasury market, based on the current nominal value of the 11 nations joining Emu.

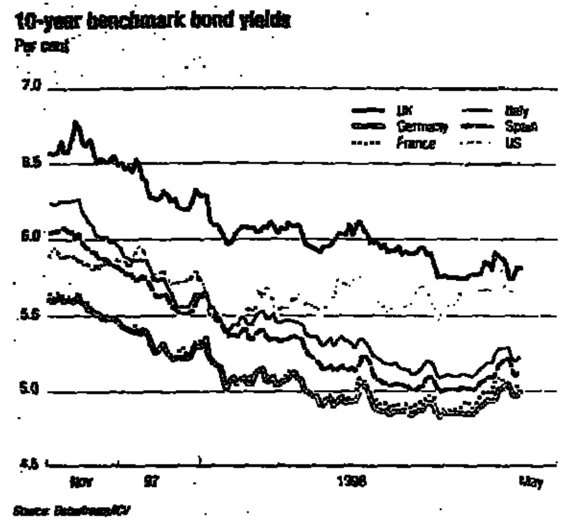
This means offering more maturities, not fewer, to investors, despite the declining overall volume of government bond issuance.

France is also considering inflation-linked bonds, while Germany has extended its yield curve to 30 years.

None of that, however, obscures the trend towards diminishing supplies of government bonds.

10-year benchmark bond yields

Per cent



Source: Datastream/ICV

"The reduction in government bond supply has pushed up government bond prices, which, in turn, helps reduce government bond yields," says Sally Wilkinson, head of bond research at Daiwa Europe.

The reduction in supply has also helped stabilise government yield curves. Given much lower inflation expectations and greater budget rigour, most government yield curves are much flatter than they used to be. This is a sign of greater market confidence in governments' long-term ability to control inflation.

Government bond markets are, therefore, much less volatile than before.

"In the 1980s and early 1990s, a swing in the bond market could be as much as 400 or 500 basis points. Now, it is more like 50 or 100 basis points," Mr Cliffe says.

Given that both yields and volatility are falling, investors are starting to look elsewhere for their returns.

One obvious choice is corporate bonds, where European investors are beginning to see some supply. Another, perhaps longer-term, outlet is the equities market. A third is emerging-market bonds, especially from sovereign issuers, which offer higher yields.

For holders of US Treasuries, however, the most immediate impact of the government's moves is that they remove the benchmark.

This will probably lead them to underperform other sectors of the yield curve and the increase in size of the five-year pool, with auctions quarterly rather than monthly, means that area will be the main beneficiary.

Whether last week's developments herald a new era of budget surpluses in the US – and perhaps elsewhere – remains to be seen. Some observers say it does, but that such events are cyclical and may not be sustainable.

Thomas Juterbock, head of US and European government bond trading at Morgan Stanley Dean Witter, estimates the aggregate US budget surplus for the next 10 years at $500bn.

"If that is the case, the Treasury will have to make many more adjustments. But it is difficult to stay in surplus indefinitely. A surplus is indicative of restrictive fiscal policy, which may not be sustainable," he says.

Robeco in $575m US asset management deal

By Gordon Cramb in Amsterdam

Robeco Groep, the Netherlands' biggest manager of client funds, is to enter the US asset management market by paying up to $575m for Weiss, Peck & Greer, a New York investment house best known for its venture capital activities.

The more than Fl 32bn ($16bn) under management at WPG will take Robeco's total entrusted funds to some Fl 170bn. The Rotterdam group is paying an initial $375m – the rest depends on future profits and is to be spread over five years.

WPG, which employs about 300 staff, is a New York Stock Exchange member and also has offices in Chicago and San Francisco.

The deal is the latest in a run of such purchases by European institutions, among them the $2.4bn acquisition by Switzerland's Zurich Group last year of Scudder, Stevens & Clark.

It also signals the increased clout of Robeco since Rabobank, the Dutch co-operative banking group, took a 50 per cent stake last year in a phased Fl 1.1bn deal. That followed Rabo's 1996 takeover of Gilde, one of the Netherlands' leading providers of venture capital.

"Rabo was totally supportive of going for a larger transaction," said one banker familiar with the WPG agreement.

Robeco, which has a small Texas-based operation in fixed income securities, is understood to have been looking for an equities presence in the US for two years.

It approached WPG, established in 1970 by partners including Stephen Weiss, who will stay on as chief executive.

"We can now offer our clients access to a new range of international investment products, while maintaining significant autonomy," he said.

Pieter Korteweg, Robeco chief, said the deal met its goal of setting up an international network of asset managers serving mainly institutional clients. Constant Korthout, group controller, will join WPG's executive.

The deal remains subject to regulatory approvals in both countries, although the US Federal Reserve is said to have indicated that it saw no problems.

WPG has only a modest presence in merchant banking, while a large part of its operations are in private equity, as well as stock lending, clearing and brokerage.

Its venture funds are to be marketed to clients of Robeco, while the two will co-operate in research and information technology.

Advising on the deal were J.P. Morgan and Goldman Sachs.

Kazakh bond to raise up to $500m

By Gary Mead

Kazakhstan is to issue a $300m-$500m seven-year eurobond in June, its third eurobond issue since December 1996.

The lead manager and denomination of the bond will be decided this week, according to Daniyar Abulgazin, director of the budget department of the former Soviet republic's finance ministry.

Speaking at the annual conference of the European Bank for Reconstruction and Development in Kiev, Mr Abulgazin said nine banks were competing via tender to issue the bond, which would probably be denominated either in US dollars or euros.

Kazakhstan's debut in the eurobond market, with a three-year $200m issue in December 1996, was issued at 350 basis points over US Treasuries, while the five-year, $350m bond of September 1997 was issued at 245 points over US Treasuries.

Kazakhstan was given an upgraded credit rating of BB by Fitch IBCA in January, on the basis of two years' sustained economic growth and a rise in oil production in 1997 of 12 per cent.

Mr Abulgazin added that the country planned to launch a three-year domestic treasury bond, which would be open to foreign investors, in the second half of 1998.

In a related development, a five-year, $200m dollar-denominated eurobond will be issued in 1999 by Kazkommertsbank – Kazakhstan's second biggest bank – according to Edigen Mukhamov, deputy chairman.

Kazkommertsbank issued its first eurobond, of $100m over three years, in April; it was priced at 570 points above US Treasuries. Mr Mukhamov said the bank was also working on other loans. At the start of this month Halyk Savings Bank, the country's largest, said it would issue a $100m eurobond at the end of May.

Leading Indian bank lifts profits

By Krishna Guha in Bombay

India's biggest financial institution saw higher profits and a fall in its bad debts ratio, in spite of rising defaults from heavy industry hit by the country's economic slow-down.

Industrial Development Bank of India reported pre-tax profits of Rs18bn ($452m) for the year to March 31, up 16.5 per cent. The rise in profits, helped by a lower cost of funds, was propelled by a 19 per cent increase in assets to Rs600bn.

"It has been a difficult year," said S. H. Khan, chairman. "The economy grew at a very modest rate, industry for the second successive year has gone through difficult conditions, and the capital market has been in the doldrums. In spite of this, the performance of IDBI has been quite good."

Loan sanctions were up 42 per cent to Rs242bn, led by a big rise in lending to infrastructure projects. IDBI lent Rs50bn to power, Rs23bn to telecommunications and Rs9.5bn to roads and ports. Infrastructure accounted for 34 per cent of new loan approvals – more than twice that of the previous year.

"There were not many greenfield projects from the manufacturing sector," Mr Khan said. Companies were concentrating on "expansion and modernisation to improve competitiveness" of existing plants. As a result, IDBI increased working capital loans to Rs27bn, about 12 per cent of the total.

It also benefited from a reduction in the marginal cost of funds, which were about 300 basis points lower. Average spreads rose from 3.7 per cent to 3.9 per cent.

Mr Khan warned that India needed to mobilise more long-term funds to facilitate infrastructure lending. "It is extremely difficult to raise beyond three- to five-year funds," he said.

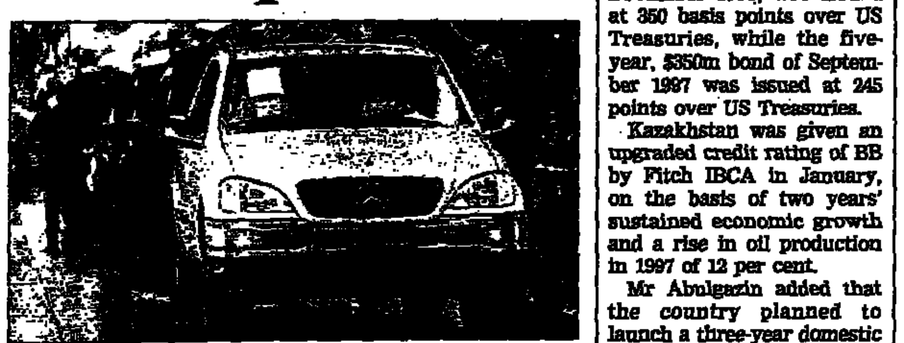
The increase in lending enabled IDBI to contain the proportion of bad debts, which fell from 10.3 per cent of total assets to 10.1 per cent. However, in absolute terms, non-performing assets jumped Rs7.3bn to Rs51bn. India's troubled iron and steel industry accounted for 14.5 per cent of bad debts, textiles for 11 per cent, and chemicals for 9.7 per cent.

"Manufacturing industry has gone through a bad patch," said Mr Khan. He said the bank would extend assistance to companies "facing temporary problems on account of the industry situation" but remaining "potentially viable".

He said IDBI would not fudge these loans in its books and denied rumours it was heavily exposed to individual business houses that face difficulties.

Global automotive group consolidation tops $28bn

By John Griffiths



Acceleration: Daimler-Chrysler merger will hasten consolidation

Asia's economic turmoil, global over-capacity and poor prospects for growth last year forced the world automotive industry into more than 700 merger or acquisition deals with a value of about $28bn.

The pace of consolidation will quicken this year, not least because of the $92bn Daimler-Chrysler merger, which has ramifications for the components industry as well as other carmakers, according to an annual analysis by accountancy group Price Waterhouse.

Europe was the main focus of the rationalisation last year and will be the subject of continuing upheaval, according to the automotive "global deals" survey*.

The declared value of merger and acquisition activity in Europe jumped 50 per cent last year, from $10bn to $15bn, covering 371 individual transactions.

"While actual demand in the more mature and larger markets of Western Europe and North America was buoyant in 1997, the overall outlook is flat at best," according to Steve Utting, one of the partners responsible for the survey.

The industry has to continue to globalise in order to contain costs, requiring investments in technology and organisational improvements by vehicle distributors as well as component makers. As a result, "1997's high level of merger and acquisition activity will continue throughout 1998 and beyond", said Mr Utting.

In North America and Europe, acquisitions in the components industry were focused strategically on acquiring the ability to supply complex systems for vehicles, rather than parts.

The $1.2bn acquisition by the Peugeot Citroën group's Ecia components subsidiary of seat-maker Bertrand Faure, for example, has given Ecia the critical mass to compete globally.

More similar deals will emerge over the near future as North American and European component groups target each other and lower cost manufacturers.

Price Waterhouse Corporate Finance Global Deal Survey. Enquiries to Price Waterhouse, Cornwell Court, 19 Cornwell St, Birmingham B3 2DT

Surprise purchase indicates new direction for Aetna

US healthcare group's chief is confident problems associated with 1996 acquisition are behind it, reports **John Authers**

Market movers

At the end of March, Aetna gave Wall Street a big surprise: it announced it was buying NYLCare, the health management business of New York Life, the mutual insurer, in a cash deal worth $1.05bn.

The move caught the market off-guard because it followed two separate profit warnings within 18 months linked to Aetna's problems integrating the $8.9bn acquisition in 1996 of US Healthcare, the largest US health management organisation.

In 1996, it took a charge of $275m for integration costs, and last September it took a $103m charge following higher than expected medical claims. The market reacted savagely, with last year's announcement knocking almost 30 per cent off Aetna's share price.

The March announcement was a robust affirmation that Richard Huber, who took over as chief executive last year, was confident that the problems created by the US Healthcare integration had been solved. It also showed he was serious about the new strategic direction he had set for the company.

This has seen several disposals, such as the sale of its US property and casualty insurer to Travelers Group, and the sale of its western European businesses. The sale of Aetna's individual life assurance business in the US seems likely to follow.

The logic was that double-digit returns could be made in three sectors where demand would grow: healthcare and retirement fund management and emerging markets retail products.

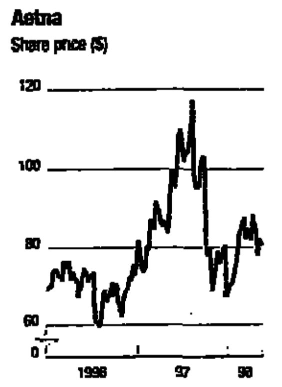
Mr Huber's plan is to reallocate capital to these growth businesses via an aggressive acquisition campaign, and through strategic alliances in Latin America and Asia.

Asked about US Healthcare, Mr Huber admits: "We committed some blunders. But what we did in the integration process had nothing to do with US Healthcare."

The old Aetna health business had grown to have 41 service centres around the country. US Healthcare, a similar sized organisation, had four.

The new organisation now has 24. The merged company also has one information

Richard Huber: will not make the same mistakes again



Source: Datastream/ICV

technology platform, rather than the 14 it had at the time of the merger.

"So I would argue that the operational consolidation of the service centres and the conversion of all the health management organisations to a single systems platform was something that needed to be done," Mr Huber says.

His argument is that integrating NYLCare, which has about the same annual premium income as US Healthcare in spite of the much cheaper price tag for the deal, should prove easier now that Aetna has completed the job of setting its own house in order. Several of the NYLCare service centres are very small and can be integrated easily, while its three largest centres will remain broadly untouched. Integration will be slower and smoother than that for US Healthcare.

"Perhaps the single most important lesson was never to underestimate the hidden asset called experience. We seriously underestimated the time it would take new hires in the new centres we were consolidating into to reach full productivity. We won't make the same mistake twice – although we might make some new ones," Mr Huber says.

The combined company will be first or second in four of the six largest healthcare markets in the US – New York, New Jersey, Pennsylvania, and Texas where NYLCare is strongest. Mr Huber's ambition is to build Aetna to a similar position in the two remaining big markets – Florida and California – probably through further acquisitions.

Analysts remain cautious. Arun Kumar, who follows the health sector for Standard & Poor's, the rating agency, says: "The driving reason to merge is to get scale in terms of membership in critical areas. That doesn't necessarily mean that you are able to integrate quickly.

"There's been a tendency to rush to meet Wall Street expectations in terms of synergies, and at the same time that's led to inadequate claims processes. All of that has made the mergers of the past year very difficult."

Mr Kumar admits to being surprised that Aetna embarked on the process so swiftly after annoying Wall Street investors over US Healthcare.

Shellie Studdard, analyst at the AM Best rating agency, summarises the feelings of many: "Aetna's very strategically driven to be a key player, but they are doing it at huge cost. What they paid for US Healthcare was outrageous at the time, and looking back it's even more so, because they lost the management they were paying for."

However, Aetna's share price has staged a recovery since September, and it avoided a sharp reaction to the NYLCare deal.

Mr Huber also plans to build the company through cross-selling its different products – a concept much discussed in US financial services since last month's announcement that Citicorp was to merge with Travelers Group.

Cross-selling campaigns, and the incentives for staff to back them up, are already being piloted, particularly for its healthcare and pension management services, both of which are sold to corporate administrators. The idea is that the "value added" from Aetna's technology system will be a big selling tool.

"We can provide a large plan sponsor with analytics which allow them to look at the totality of their membership, and show them which of their members represent 80 per cent of their costs," says Mr Huber. "We paid the price, but we've got that kind of capability now, and nobody else has it."

NEWS DIGEST

SOUTH KOREAN CHAEBOL

Daewoo to raise $7bn by 2000 for restructuring

Daewoo has become the latest of South Korea's big conglomerates, or *chaebol*, to announce restructuring plans. It said at the weekend it was looking to raise $7bn by 2000 through asset sales and mergers. Daewoo, Korea's fourth largest *chaebol*, said it would concentrate on electronics, construction, cars, shipbuilding and financial services as its core industries.

Similar restructuring plans were announced last week by the Samsung, Hyundai, LG and SK groups in response to government pressure to reduce the high debt levels left behind the nation's financial crisis last winter.

Daewoo said it hoped to raise foreign capital through offering stakes in its core businesses. Among possible deals is the sale of a 50 per cent stake in its car operations to General Motors of the US. The group also plans to list its overseas car and electronics subsidiaries on stock markets in the UK, France and Mexico to raise capital.

The number of Daewoo subsidiaries will be reduced from 37 to 20 as it seeks to reduce its net debt/equity ratio from 414 per cent at the end of 1997 to 80 per cent by 2002.

Some of the restructuring plans announced by the top five Korean conglomerates have been dismissed as unrealistic and vague by analysts. However, Kim Dae-jung, president of Korea, yesterday gave a cautious welcome to the proposals. "The restructuring programmes announced by the five top conglomerates have opened the flood-gates and we now have to encourage them to expedite reforms," he said. **John Burton, Seoul**

DERIVATIVES

CME and Simex extend link

The Chicago Mercantile Exchange, the second largest of the US futures exchanges, and the Singapore International Monetary Exchange (Simex), are planning to go ahead with trading of 10-year Japanese government bonds via their "mutual offset" open outcry trading link.

The CME/Simex mutual offset arrangement is one of the few open outcry links in the futures industry that has been deemed successful, and dates back more than a decade. It allows a trader to open a position at one exchange and close at the other, for a variety of contracts. **Nikki Tait, Chicago**

STEAM CRACKERS

BASF, Petrofina joint venture

The boards of BASF, the German chemicals group, and Petrofina, the Belgian oil company, yesterday approved a $900m project to build the world's largest single-train steam cracker in Texas. BASF will hold 60 per cent and Fina 40 per cent of the joint venture, which will have a capacity of 860,000 tonnes of ethylene and 860,000 tonnes of propylene.

Construction is due to begin in September and its completion is expected before the end of 2000. Ethylene and propylene are widely used in plastics, fibres, solvents and paints.

The companies said the venture presented "the optimal competitive solution" and would provide significant logistical and operational synergies. Integrating the cracker and refinery operations would save $50m a year.

Earlier this year, Petrofina absorbed Fina, its US subsidiary. Last year, net profits rose 39 per cent to BFr22.1bn ($606m).

BASF had worldwide sales of DM55bn ($31bn) in 1997. **Samer Iskandar, Brussels**

FORESTRY

Metsä-Serla ahead in 1998

First-quarter profits at Metsä-Serla rose from FM288m to FM720m ($134m) as the Finnish forestry company enjoyed higher prices and improved profitability across its product lines. Metsä said it had been helped by strengthening paper prices at a time when prices of pulp – the key ingredient for paper – had fallen.

The company predicted higher full-year profits than in 1997 in spite of the probability that second-quarter profits would be lower than in the first three months following production shutdowns in fine paper and magazine paper.

Sales rose from FM3.9bn to FM5.6bn and earnings per share climbed from FM0.22 to FM2.42. Metsä's most-traded B shares closed up FM1 at FM59.50 in Helsinki on Friday. **Greg McIvor, Stockholm**

INSURANCE

AGF, Allianz deal approved

European competition regulators have cleared the acquisition of Assurances Générales de France, the Paris-based insurer, by Germany's Allianz. Brussels had extended an initial one-month inquiry by two weeks to discuss concern over AGF's ownership of Coface, the French export finance insurer.

AGF has already said it would reduce its shareholding in Coface from 58 per cent to 24 per cent. It is thought that AGF and Coface have agreed to compete on the reinsurance market as independent entities. **Christopher Adams**

INDIAN UTILITIES

Cross-border financing for PFC

Power Finance Corporation Ltd (PFC), the state-owned Indian utility, is to raise $100m through an unsecured syndicated loan, which bankers said would be the first significant Indian cross-border financing to come to the market since the Asian financial crisis. PFC's financing requirements were expected to grow in line with surging power demand in India, it said.

ANZ Investment Bank, which arranged the deal, said the seven-year loan carried a margin of 115 basis points over Libor (the London interbank offered rate). This was about double the price PFC paid for similar borrowings before the regional fall-out. **Jeremy Grant**

DUTCH BANKING

ABN Amro may expand

ABN Amro, the Dutch bank, is considering further acquisitions in eastern Europe, the regional manager said at the ERBD meeting in Kiev yesterday. Willem Veger, who is responsible for central and and eastern Europe and central Asia, said ABN Amro could be interested in bidding for stakes in banks scheduled for privatisation in Poland, the Czech Republic and Romania. **Reuters, Kiev**

MAGAZINES

Computer publication sold

Wired Ventures has sold Wired, its popular computer and culture magazine, to Advanced Magazine Publications, publisher of Condé Nast titles such as Vogue and Vanity Fair.

Terms were not disclosed but some reports put the price at about $75m. The sale leaves the former owner with HotWired and Wired News, the online publications, and its HotBot search engine. **Agencies**

Consortium in C$11bn rail link proposal

By Scott Morrison in Toronto

A consortium led by Bombardier and GEC Alsthom Canada has proposed to build an C$11.1bn (US$7.7bn) high-speed rail line linking Toronto with Ottawa, Montreal and Quebec City. However, it appears unlikely the federal government will agree to finance two-thirds of the project.

The Lynx consortium said it would provide C$3.6bn for equipment and technology, while the public sector would be asked for C$7.5bn for infrastructure construction of the 850km line.

Lynx project director Jean-Paul Gourdeau said the public sector would receive a 12.7 per cent return on investment.

A 1995 study prepared by the federal government and provincial authorities in Ontario and Quebec determined that sufficient potential commuter demand existed in the populated corridor to warrant the line.

The report also concluded that a wholly-owned private sector initiative was neither viable nor affordable and recommended that the public sector assume about 70 per cent of the cost.

However, Ottawa is unlikely to provide funds as governments in Canada have sharply curtailed spending to trim deficits.

David Collenette, transportation minister, has said he would be reluctant to put his hand in the public purse to fund the project.

Others are pessimistic about the project's prospects. "I don't think this has a snowball's chance in hell in this town right now," said a senior government official.

The companies have asked Ottawa, Ontario and Quebec to contribute C$5m, to be matched by the consortium, to conduct feasibility studies during the next 41 months.

Engineering groups SNC-Lavalin and Agra, as well as construction groups Ellis-Don and Axor are the consortium's other members.

Mr Gourdeau said the consortium would not proceed with the project without government financing, but he declined to discuss whether the group would be willing to cover a greater portion of the cost.

Desc in bid for US food group

By Henry Tricks in Mexico City

Desc, the Mexican conglomerate, is seeking a bigger slice of the lucrative Mexican-US food market in the southern US with plans to launch a $142m cash tender offer for Authentic Specialty Foods of Texas.

The purchase would add to a growing list of US food companies in border states being gobbled up by their Mexican counterparts, which are targeting US demand for "ethnic foods", including salsas, tortillas, tortilla chips and jalapeño peppers.

ASF, based in Grand Prairie, Texas, makes Mexican food products under the La Victoria and Calidad labels, which it distributes chiefly in Texas and California. It had net sales in the first quarter of $21m.

Desc, which was advised by J.P. Morgan, the US bank, has made a tender offer of $17 per ASF share that it expects to complete by June.

The Mexican conglomerate, whose businesses range from automotive parts to foods and property, had sales in 1997 of $1.9bn.

It has a foothold north of the border through Corfuerte, whose products are distributed in the southern US by Embasa Foods.

Fernando Senderos, chief executive of Desc, said he hoped the ASF acquisition would help make the company the industry leader in brand-name Mexican foods, with further growth planned in the US market.

Desc expects the ASF purchase to shave some $4m off sales and administrative costs at both ASF and Embasa.

Since 1994, when Mexico, the US and Canada launched the North American Free Trade Agreement, US companies have led the charge across the border to buy Mexican targets but Mexican food companies are starting to buck the trend.

Bimbo, Mexico's largest baker, announced in March it would buy Mrs Bairds Bakeries of Texas, the largest family-owned bakery in the US with annual sales of $300m.

BoNY and Standard Bank in custody deal

By Jane Martinson and Victor Mallet

Bank of New York, one of the world's largest investment custodians, has formed a strategic alliance with Standard Bank of South Africa, the country's largest.

The deal will give Standard Bank's institutional clients, with assets under custody of R478bn ($94bn), access to BoNY's network of 87 markets.

Mark Kerns, managing director of BoNY's product management division, said the arrangement reflected the liberalisation of regulations in South Africa that allowed institutions to invest overseas. Standard Bank's customers will continue to liaise with existing staff members.

BoNY, which has more than $4,000bn of assets under custody, made an unwelcome $24bn bid approach to Mellon Bank of the US last month. However, it has previously been keen to form alliances with local providers.

Standard Bank said the arrangement would enhance its position as provider of services to institutional clients and enable it to act as a "gateway to international markets".

The alliance would allow South African investors to take full advantage of the recent liberalisation of the country's foreign exchange controls, the two banks said.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Daimler-Benz (Germany)	Chrysler (US)	Carmakers	$46bn	Equals merge
Axa-UAP (France)	Royale Belge (Belgium)	Insurance	$3.3bn	More integration
Cendant (US)	RAC (UK)	Motoring srvcs	$743m	Drama unfolds
Volkswagen (Germany)	Rolls-Royce (UK)	Carmakers	$710m	Vickers u-turn
Volvo (Sweden)	Unit of Samsung (S. Korea)	Heavy equipment	$572m	Restructure starts
Pentair (US)	Vero (UK)	Cable equipment	$169m	Rival for APW
IWP (Ireland)	Jeyes (UK)	Household products	$84m	IWP cleans up
Kingfisher (UK)	Promarkt (Germany)	Retailing	$81m	Pan-Europe step
Pearson (UK)	Pasha Publications (US)	Publishing	$17.8m	Energy move
Artemis (France)	Christie's Int'l (UK)	Auctioneering	n/a	29% stake

TELECOM ITALIA AND CABLE AND WIRELESS DROPPING OF AT&T PARTNERSHIP UNDER FIRE

Alliance leads to rifts with Rome

By Paul Betts in Milan

Telecom Italia's L3,600bn ($2.1bn) alliance with Cable and Wireless, the UK telecommunications group, has led to a rift between the Italian company's new management and the government that risks scuppering the deal.

The treasury and the ministry for telecommunications, as well as some of Telecom Italia's new strategic shareholders have questioned the wisdom of the C&W deal, concluded with surprising speed by Gian Mario Rossignolo, Telecom Italia's new chairman, and Francesco De Leo, the company's new head of strategy and development.

The treasury, which remains the largest single shareholder in the privatised telecoms group, has questioned Mr Rossignolo's decision to break off the proposed strategic and equity partnership with AT&T of the US to negotiate an alternative alliance with C&W.

It also has doubts about the new management's decision to write down a number of assets that has led to a 10 per cent decline in Telecom Italia's parent company 1997 net earnings, to L2,311bn.

The government, which is about to launch a series of privatisations, including the sale of a fourth tranche of shares in the Eni oil group worth about L12,000bn, is concerned that the recent Telecom Italia moves risk undermining the credibility of its programme.

Telecom Italia's flotation prospectus last autumn stressed the importance of the proposed AT&T deal for the future of the company. The former management had also forecast higher parent company profits for 1997.

Carlo Azeglio Ciampi, the treasury minister, recently expressed "puzzlement" over the strategy of Telecom Italia's new management. Fierce internal feuding has further increased the government's concern over what has become Italy's largest public company with more than 1.5m shareholders.

Apart from criticising Mr Rossignolo's style of management, the government and some leading shareholders consider the preliminary agreement with C&W far more favourable to the UK group than to Telecom Italia.

Carlo Azeglio Ciampi: puzzled over Telecom Italia strategy

The deal involves an alliance in long-distance telephone operations as well as the acquisition by Telecom Italia for L3,600bn of minority stakes held by the UK company in international ventures.

These include Cable and Wireless's 20 per cent stake, for L1,350bn, in Bouygues Telecom, the French mobile telephone company, as well as minority stakes in C&W US and C&W West Indies.

Bouygues Telecom is regarded as a weak player and the UK group had been shopping around to dispose of its stake.

The government, which has retained a 5.2 per cent stake in Telecom Italia, largely because of the collapse of the AT&T tie-up, argues with other shareholders that Telecom Italia should consider only acquiring majority stakes in international ventures.

The new management is expected to come under pressure to consider acquiring control of Bouygues Telecom while reconsidering its move on the West Indies and US subsidiaries of C&W.

At a board meeting on Friday, an armistice was reached between Telecom Italia and its dissenting shareholders. To win approval of its decision to reduce 1997 parent company net profits by 10 per cent, the company agreed to increase by 44 per cent, to L190, its 1997 dividend for ordinary shares and by 40 per cent, to L210, for savings shares.

The company also took on two new board members, both close to the treasury. There have already been informal calls for the appointment of a new chief executive to reduce the powers of Mr Rossignolo.

The real showdown is expected at the annual meeting next month when shareholders will be called to renew the entire board.

Hindalco bucks trend with 14% advance

By Krishna Guha in Bombay

Hindalco, India's biggest aluminium producer, underlined the health of the sector with a 14 per cent rise in profits.

Earlier, the public sector National Aluminium Company also reported higher profits. This contrasts sharply with the depressed state of much of India's heavy industry.

Hindalco, part of the Aditya Birla group, announced pre-tax profits of Rs5.8bn ($146m), up from Rs5.1bn, for the year to March 31.

The increase was fuelled by sales, which rose 27 per cent to Rs14.7bn. "Volumes have gone up, the proportion of value-added products has gone up and we have seen better realisations," said A. K. Agarwala, president.

Higher value items accounted for 46 per cent of output, with average prices up Rs5,400 per tonne.

Mr Agarwala identified electrical transmission lines, aluminium wheels and cans as growth areas.

He said the troubled Tiger economies were not big producers of aluminium, which they bought largely for processing to export to markets that remain buoyant.

Hindalco's operating margins rose from 37 per cent to 41 per cent, with more efficient use of inputs and greater use of cheap captive power. However, interest costs rose 48 per cent to Rs723m, and depreciation jumped 84 per cent to Rs776m.

"They are good numbers," said Pradeep Mahtani, assistant director at Jardine Fleming.

But Hindalco upset investors by not making a decision on its plans to invest in an Rs80bn greenfield aluminium complex in Orissa, in east India.

"They should decide quickly and tell investors what they plan to do," said one fund manager.

CONTRACTS & TENDERS

NOTICE TO HOLDERS OF 5% PERMANENT DEBENTURE STOCK AND SHARES OF THE ONTARIO AND QUEBEC RAILWAY COMPANY

NOTICE TO HOLDERS OF 4% FIRST MORTGAGE BONDS AND SHARES OF THE TORONTO, GREY AND BRUCE RAILWAY COMPANY

The Ontario and Quebec Railway Company ("O&Q") and the Toronto, Grey and Bruce Railway Company ("TG&B") are participating in a transaction which is to be implemented by way of Plan of Arrangement under the *Canada Business Corporations Act*. In connection with the Arrangement, holders of O&Q's 5% Permanent Debenture Stock ("PDS") will be paid £100 per £100 of PDS or the Canadian equivalent thereof; and holders of TG&B's 4% First Mortgage Bonds ("Bonds") will be paid £100 per £100 of Bond or the Canadian equivalent thereof. Shares of O&Q and TG&B will be exchanged for shares of Canadian Pacific Limited unless their holders elect to receive cash in the amount of $650.00 and $100.00 per respective share. All securityholders will also be offered the right to dissent and have their holdings appraised by the Court.

Take notice that a motion is being brought by the parties to the Plan of Arrangement before the Ontario Court (General Division) (Commercial List) on May 20, 1998 at 10:00 o'clock a.m. at 393 University Avenue, Toronto, Ontario. At that time, an order will be sought authorizing O&Q and TG&B each to hold meetings of their securityholders. At each of these meetings, a vote will be held concerning a resolution in connection with the Plan of Arrangement.

Copies of all the material filed with the court by O&Q and TG&B may be obtained upon request without charge from Michael Barrack, McCarthy Tétrault, solicitors for O&Q and TG&B, at Suite 4700, Toronto-Dominion Bank Tower, Toronto, Ontario M5K 1E6 (Telephone: (416) 601-7694).

COMPANIES & FINANCE

EMERGING MARKETS AFTER A BULL-RUN IN 1997, THE BEARS HAVE RETURNED

Low oil price haunts Mexico

By Henry Tricks in Mexico City

Falling oil prices have cast a long shadow over Mexican share prices this year, although robust corporate earnings have recently caught the eye of the market pundits.

After outperforming all other markets in Latin America last year, this year Mexico's IPC index has been a laggard, falling 10 per cent in dollar terms, compared with modest increases in Argentina and a 12 per cent rally in Brazil.

The oil shock, which has forced the government to cut budgetary spending twice since January, is responsible for most of the bearishness.

Mexican crude has traded well below a target of $12.50 a barrel, widening the trade deficit to $542m in March and raising concerns that Mexico's current account deficit could increase to some 3.5 per cent of gross domestic product this year, or $14bn, higher than the government's 2.5 per cent goal.

This has put pressure on the peso, which has been responsible for more than half the dollar losses in the stock market.

There are indications that concern about the oil price declines may have been exaggerated, however. Oil now accounts for only 10 per cent of Mexican exports, down from more than two-thirds in the mid-1980s.

Deutsche Morgan Grenfell, the investment bank, notes that declines in crude oil prices have historically not been accompanied by a drop in Mexican equity prices.

With the oil monopoly Pemex still in the hands of the government, oil revenues provide almost 40 per cent of the government's tax income, so lower oil prices lead to spending constraints.

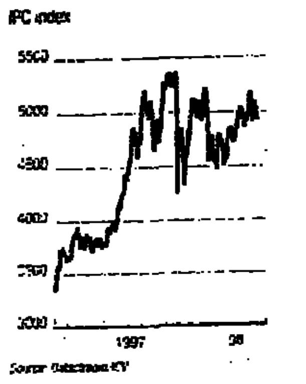
However, analysts have been impressed by Mexico's quick succession of fiscal and monetary tightening to counter the oil price shock, believing they should help underpin the peso and keep inflation on track.

"The Mexican market has been unjustifiably punished for the drop in the oil price," Deutsche Morgan Grenfell stated in a recent report.

Adding to evidence that the Mexican market may be cheap compared with some of its Latin American peers, analysts cite corporate results in the first quarter that showed little let-up from the heady pace of growth begun last year.

James Upton, strategist at Credit Suisse First Boston, said sales growth in the first quarter for a sample of 40 companies listed in Mexico was 12.6 per cent, up from 9.9 per cent in the fourth quarter of 1997 and 11 per cent in the third quarter.

Mexico
IPC index



Source: Datastream/ICV

Cement, construction, beverages, paper, and banking led the charge: sectors catering to the domestic market, which was hit by Mexico's 1995 economic crisis.

"It's taken the consumer years to recover from the peso devaluation, but it's starting to happen," Mr Upton said. Earnings momentum declined compared with the previous quarter, he added, but excluding Telmex, the telecoms giant, and exporters that suffered from last year's strong peso, cash-flow grew year-on-year by 12 per cent.

Whether investors see the results as a stimulus to buy may partly depend on the US stock market. US retail investors have been absent from the Mexican market this year, preferring to invest their money locally.

Typically in Mexico, a sharp correction on Wall Street leads to an even greater sell-off on the Mexican bolsa, and analysts say investors are scared of catching the Mexican market at the wrong time.

However, if the US market lost steam, that would be expected to prompt investors to head south. According to market watchers, any recovery in oil prices – Mexico has already joined Opec countries in scaling back production – will have a positive impact on the stock market, especially because it will calm fears about the trade account.

Economic data are also likely to be supportive. Retail sales in the first two months of the year grew 10.2 per cent, as real wages improved and some 200,000 jobs were created. Industrial production has slowed slightly from last year, partly because of a rising import bill.

However, according Denis Parisien, equity strategist at Dresdner Kleinwort Benson in New York, earnings growth may fade later in the year because of comparisons with strong base levels in the latter part of 1997.

For the same reason, GDP momentum is expected to decline by the end of the year, and it may be further constrained by tight fiscal and monetary policies.

Goldman, Fuji in funds venture

By Gillian Tett in Tokyo

Goldman Sachs, the US investment bank, plans to collaborate with Fuji Bank to distribute mutual funds.

The agreement, effective from December, is non-exclusive and is likely to be followed by similar deals between Japanese and foreign groups.

Non-Japanese companies are scrambling to take advantage of the freedoms ushered in by Japan's Big Bang deregulation in the asset management sector.

Although Goldman Sachs is usually considered an investment bank, it has recently made attempts to expand its retail asset management business in Japan.

Since it started its mutual fund business two years ago, it has expanded these operations to become the largest non-Japanese group in the sector, with some Y808.6bn ($6.1bn) of assets under management.

Japan's mutual fund market is under-developed compared with other countries, partly because the distribution channels have been relatively limited.

Until recently, the only companies allowed to distribute mutual funds were securities houses. However, last year banks were allowed to rent space to asset management groups and from December banks will be allowed to distribute these funds by themselves.

Consequently, western companies are rushing to rent space in Japanese banks to distribute funds, particularly as the Japanese public consider banks more trustworthy than brokers.

Japanese banks such as Fuji are seeking new channels to boost their revenues. Fuji already has a product-based collaboration agreement with Lord Abbett of the US and will be seeking other forms of collaboration with non-Japanese groups.

Outokumpu hit by Asian crisis

By Greg McIvor in Stockholm

The Asian economic crisis took a toll on first-quarter results at Outokumpu, the Finnish mining and metals group. Pre-tax profits fell 70 per cent to FM90m ($17m), well below market expectations, in spite of an increase in sales from FM4.46bn to FM4.7bn. Earnings per share fell from FM1.81 to FM0.46.

The decline was ascribed to big non-recurring inventory gains last time and lower valuation reserves this time. Excluding these, underlying profitability remained at last year's level, the company said.

However, it conceded that metals consumption had been badly affected by the Asian crisis. Outokumpu's most-traded A shares slipped FM1.50 to FM76.80 in Helsinki on Friday, before recovering to close at FM79.

Investor disappointment was partly explained by a marked deterioration in the base metals operations, which incurred a FM28m operating loss against a FM165m profit last time.

The company said slower consumption growth had been aggravated by sharp price falls. Copper and nickel market prices were 30 per cent and 28 per cent below their year-earlier levels.

Outokumpu predicted little change in trading conditions over the next few months. Consumption of base metals, stainless steel and copper products was expected to grow, but at a lower rate than in 1997.

Stainless steel operating profits rose from FM100m to FM132m, with improved demand and deliveries in Europe and North America compensating for a weakening of business in Asia.

Copper products, Outokumpu's largest division, saw operating profits slide from FM156m to FM87m, reflecting an FM82m inventory gain last time.

GEA to spend DM2bn on expansion

By Peter Marsh

GEA of Germany, the world's second biggest maker of food manufacturing equipment, is preparing to spend up to DM2bn ($1.1bn) on acquisitions as part of a global expansion drive.

The company wants to boost sales from DM4.7bn last year to at least DM6bn by 2000, partly through moving into new areas related to its existing activities in process engineering.

GEA has also set ambitious profits targets, based on increasing net earnings as a proportion of sales from 3.7 per cent last year to 5 per cent by the end of the century. It wants to lift return on capital employed from 13 per cent last year to 18 per cent by 2000.

Klaus Sturany, chief executive, said he was interested in buying companies in leading market positions in areas such as packaging and filling systems for international food manufacturers. This could entail increasing the company's nine divisions to 10 or 11.

"We can live with the extra complexity as long as there are synergies between the different parts," said Mr Sturany.

It is believed GEA is looking at purchasing companies with annual sales of up to DM700m, mainly in Europe. It would finance any new acquisitions partly through increasing debts, the company said.

GEA last year lifted net income 52 per cent to DM160.3m. It wanted to continue growing profits at "double-digit rates" annually, said Mr Sturany.

The company is second in food equipment behind Tetra Laval, the privately owned Swedish manufacturer. It is a world leader in technologies related to food processing, such as chemical separation and milking systems, with products from these areas handled by separate units operating largely independently.

Last year, 78 per cent of GEA's sales came from outside Germany. It sees particularly good growth prospects in eastern Europe, where over the next three years it wants to double annual sales from about DM130m in 1997.

"The food production industry in this region is starting to develop quickly as people demand higher standards [of food] and the business is profitable," said Mr Sturany.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, May 8, 1998. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7773.38	4750.00	2685.44	3581.28
Albania	(Lek)	256.522	156.750	88.6194	118.182
Algeria	(Dinar)	96.4979	58.9660	33.3367	44.4574
Andorra	(French Fr)	9.7077	5.9320	3.3538	4.4724
	(Sp Peseta)	245.925	150.275	84.9611	113.300
Angola	(Readj Kwanza)	420790.1	257128.0	145368.8	193861.3
Antigua	(E Carib $)	4.4186	2.7000	1.5265	2.0357
Argentina	(Peso)	1.6358	0.9996	0.5651	0.7536
Armenia	(Dram)	822.145o	502.380	284.023	378.789
Aruba	(Florin)	2.8294	1.7900	1.0120	1.3496
Australia	(Aus $)	2.5685	1.5695	0.8873	1.1833
Austria	(Schilling)	20.3876	12.4458	7.0365	9.3835
Azerbaijan	(Manat)	6464.18o	3950.00	2233.15	2978.10
Azores	(Port Escudo)	287.025	181.500	102.615	136.842
Bahamas	(Bahama $)	1.6365	1	0.5654	0.7539
Bahrain	(Dinar)	0.6170	0.3770	0.2131	0.2842
Balearic Is	(Sp Peseta)	245.925	150.275	84.9611	113.300
Bangladesh	(Taka)	75.7701	46.3000	26.1767	34.9078
Barbados	(Barb $)	3.2915	2.0113	1.1371	1.5164
Belarus	(Rouble)	108418.2o	66250.0	37454.8	49949.1
Belgium	(Belg Fr)	59.7189	36.4900	20.6304	27.5116
Belize	(B $)	3.2730	2.0000	1.1307	1.5079
Benin	(CFA Fr)	970.770	593.200	335.378	447.242
Bermuda	(Bermudian $)	1.6365	1	0.5654	0.7539
Bhutan	(Ngultrum)	65.1000	39.7800	22.4905	29.9921
Bolivia	(Boliviano)	8.9844	5.4900	3.1039	4.1392
Botswana	(Pula)	6.3560	3.8835	2.1956	2.9280
Brazil	(Real)	1.8737	1.1449	0.6473	0.8632
Brunei	(Brunei $)	2.6479	1.6180	0.9148	1.2199
Bulgaria	(Lev)	2889.45	1765.63	998.235	1331.19
Burkina Faso	(CFA Fr)	970.770	593.200	335.378	447.242
Burma	(Kyat)	10.2309	6.2517	3.5344	4.7135
Burundi	(Burundi Fr)	662.398	404.765	228.836	305.172
Cambodia	(Riel)	6046.87	3695.00	2088.90	2785.84
Cameroon	(CFA Fr)	970.770	593.200	335.378	447.242
Canada	(Canadian $)	2.3478	1.4347	0.8111	1.0817
Canary Is	(Sp Peseta)	245.925	150.275	84.9611	113.300
Cp. Verde	(CV Escudo)	165.426	101.085	57.1489	76.2129
Cayman Is	(CI $)	1.3554	0.8282	0.4682	0.6244
Cent. Afr Rep	(CFA Fr)	970.770	593.200	335.378	447.242
Chad	(CFA Fr)	970.770	593.200	335.378	447.242
Chile	(Chilean Peso)	740.782	452.650	255.915	341.275
China	(Yuan)	13.5483	8.2788	4.6806	6.2418
Colombia	(Col Peso)	2267.94	1385.85	783.518	1044.86
Comoros	(Fr)	729.319	445.658	251.955	336.003
Congo	(CFA Fr)	970.770	593.200	335.378	447.242
Congo (Dem Rep)	(Zaire)(2)	209472.1	128000.0	72365.4	96505.4
Costa Rica	(Colon)	413.257	252.525	142.766	190.391
Côte d'Ivoire	(CFA Fr)	970.770	593.200	335.379	447.242
Croatia	(Kuna)	10.4598	6.3916	3.6136	4.8189
Cuba	(Cuban Peso)(1)	37.6395	23.0000	13.0032	17.3406
Cyprus	(Cyprus £)	0.8549	0.5224	0.2953	0.3938
Czech Rep.	(Koruna)	53.2837	32.5595	18.4082	24.5482
Denmark	(Danish Krone)	11.0295	6.7397	3.8104	5.0814
Djibouti Rep	(Djib Fr)	290.839	177.720	100.475	133.992
Dominica	(E Carib $)	4.4186	2.7000	1.5265	2.0357
Dominican Rep	(D Peso)	24.5475	15.0000	8.4803	11.3092
Ecuador	(Sucre)	8354.34o	5105.00	2886.14	3848.91
	(Sucre)	8382.16m	5122.00	2895.75	3861.73
Egypt	(Egyptian £)	5.5928	3.4175	1.9321	2.5766
El Salvador	(Colon)	14.3276	8.7550	4.9497	6.6008
Equat'l Guinea	(CFA Fr)	970.770	593.200	335.378	447.242
Estonia	(Kroon)	23.1619	14.1533	8.0019	10.6709
Ethiopia	(Ethiopian Birr)	11.3426	6.9310	3.9185	5.2256
Falkland Is	(Falk £)	1	0.6111	0.3455	0.4607
Faroe Is	(Danish Krone)	11.0295	6.7397	3.8104	5.0814
Fiji Is	(Fiji $)	3.2058	1.9589	1.1075	1.4769
Finland	(Markka)	8.7978	5.3760	3.0394	4.0532
France	(Fr)	9.7077	5.9320	3.3538	4.4724
Fr. Cty/Africa	(CFA Fr)	970.770	593.200	335.378	447.242
Fr Guiana	(Local Fr)	9.7077	5.9320	3.3538	4.4724
Fr Pacific Is	(CFP Fr)	176.804	108.038	61.0799	81.4552
Gabon	(CFA Fr)	970.770	593.200	335.378	447.242
Gambia	(Dalasi)	16.6173	10.1542	5.7407	7.6557
Germany	(D-Mark)	2.8946	1.7688	1	1.3335
Ghana	(Cedi)	3804.87	2325.00	1314.49	1752.93

		£ STG	US $	D-MARK	YEN (X 100)
Gibraltar	(Gib £)	1	0.6111	0.3455	0.4607
Greece	(Drachma)	504.255	308.130	174.208	232.314
Greenland	(Danish Krone)	11.0295	6.7397	3.8104	5.0814
Grenada	(E Carib $)	4.4186	2.7000	1.5265	2.0357
Guadeloupe	(French Fr)	9.7077	5.9320	3.3538	4.4724
Guam	(US $)	1.6365	1	0.5654	0.7539
Guatemala	(Quetzal)	10.2671	6.2738	3.5469	4.7301
Guinea	(Fr)	2004.71	1225.00	692.560	923.567
Guinea-Bissau	(CFA Fr)(3)	970.770	593.200	335.378	447.242
Guyana	(Guyanese $)	236.147	144.300	81.5807	108.795
Haiti	(Gourde)	27.9585	17.0843	9.6587	12.8807
Honduras	(Lempira)	21.7818	13.3100	7.5249	10.0351
Hong Kong	(HK $)	12.6821	7.7495	4.3813	5.8427
Hungary	(Forint)	342.485	209.285	118.324	157.790
Iceland	(Icelandic Krona)	117.075	71.5400	40.4468	53.9375
India	(Indian Rupee)	65.1000	39.7800	22.4905	29.9921
Indonesia	(Rupiah)	15219.5	9300.00	5257.95	7011.72
Iran	(Rial)	4909.50u	3000.00	1696.07	2261.85
Iraq	(Iraqi Dinar)	0.5088o	0.3109	0.1758	0.2344
Iraq	(Iraqi Dinar)	1963.80m	1200.00	678.426	904.739
Irish Rep	(Punt)	1.1525	0.7042	0.3981	0.5309
Israel	(Shekel)	6.0264	3.6825	2.0820	2.7764
Italy	(Lira)	2855.11	1744.65	986.372	1315.37
Jamaica	(Jamaican $)	58.9140	36.0000	20.3528	27.1422
Japan	(Yen)	217.057	132.635	74.9860	100
Jordan	(Jordanian Dinar)	1.1636	0.7110	0.4020	0.5361
Kazakhstan	(Tenge)	125.700	76.8100	43.4249	57.9108
Kenya	(Kenya Shilling)	100.318	61.3000	34.6572	46.2171
Kiribati	(Australian $)	2.5685	1.5695	0.8873	1.1833
Korea North	(Won)	3.6003	2.2000	1.2438	1.6587
Korea South	(Won)	2269.83	1387.00	784.170	1045.73
Kuwait	(Kuwaiti Dinar)	0.4996	0.3053	0.1726	0.2301
Laos	(New Kip)	3287.73	2009.00	1135.80	1514.68
Latvia	(Lats)	0.9610	0.5873	0.3320	0.4428
Lebanon	(Lebanese £)	2478.32	1514.40	856.198	1141.78
Lesotho	(Maloti)	8.2848	5.0625	2.8622	3.8169
Liberia	(Liberian $)	1.6365	1	0.5654	0.7539
Libya	(Libyan Dinar)	0.6276	0.3835	0.2168	0.2891
Liechtenstein	(Swiss Fr)	2.4176	1.4773	0.8352	1.1138
Lithuania	(Litas)	6.5469	4.0005	2.2618	3.0162
Luxembourg	(Lux Fr)	59.7159	36.4900	20.6304	27.5116
Macao	(Pataca)	13.0989	8.0042	4.5252	6.0348
Macedonia	(Denar)	93.1048	56.8926	32.1645	42.8941
Madagascar	(MG Fr)	8348.15	5100.00	2883.31	3845.14
Madeira	(Port Escudo)	297.025	181.500	102.615	136.842
Malawi	(Kwacha)	41.7308	25.5000	14.4166	19.2257
Malaysia	(Ringgit)	6.2351	3.8100	2.1541	2.8725
Maldive Is	(Rufiya)	19.2616	11.7700	6.6542	8.8740
Mali Rep	(CFA Fr)	970.770	593.200	335.378	447.242
Malta	(Maltese Lira)	0.6428	0.3928	0.2221	0.2962
Martinique	(Local Fr)	9.7077	5.9320	3.3538	4.4724
Mauritania	(Ouguiya)	288.164	176.085	99.5534	132.759
Mauritius	(Maur Rupee)	38.9897	23.8250	13.4700	17.9630
Mexico	(Mexican Peso)	13.8759	8.4790	4.7936	6.3927
Moldova	(Leu)	7.7407	4.7300	2.6741	3.5662
Monaco	(French Fr)	9.7077	5.9320	3.3538	4.4724
Mongolia	(Tugrik)	1284.26	784.780	443.668	591.669
Montserrat	(E Carib $)	4.4186	2.7000	1.5265	2.0357
Morocco	(Dirham)	15.7958	9.6522	5.4569	7.2772
Mozambique	(Metical)	18811.6	11495.0	6498.78	8666.64
Namibia	(S A Rand)	8.2848	5.0625	2.8622	3.8169
Nauru Is	(Australian $)	2.5685	1.5695	0.8873	1.1833
Nepal	(Nepalese Rupee)	101.954	62.3000	35.2216	46.9710
Netherlands	(Guilder)	3.2618	1.9932	1.1268	1.5027
N'nd Antilles	(A/Guilder)	2.9294	1.7900	1.0120	1.3496
New Zealand	(NZ $)	3.0003	1.8333	1.0365	1.3823
Nicaragua	(Gold Cordoba)	17.0131	10.3960	5.8774	7.8381
Niger Rep	(CFA Fr)	970.770	593.200	335.378	447.242
Nigeria	(Naira)	35.81650	21.8860	12.3734	16.5009
	(Naira)	141.957m	86.7500	49.0450	65.4051
Norway	(Nor. Krone)	12.1034	7.3959	4.1814	5.5761
Oman	(Rial Omani)	0.6301	0.3850	0.2177	0.2903

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)(4)	72.1206	44.0700	24.9159	33.2285
Panama	(Balboa)	1.6365	1	0.5654	0.7539
Papua New Guinea	(Kina)	3.3298	2.0347	1.1503	1.5340
Paraguay	(Guarani)	4533.11	2770.00	1566.03	2088.44
Peru	(New Sol)	4.6485	2.8405	1.6059	2.1416
Philippines	(Peso)	64.4783	39.4000	22.2758	29.7058
Pitcairn Is	(£ Sterling)	1	0.6111	0.3455	0.4607
	(NZ $)	3.0003	1.8333	1.0365	1.3823
Poland	(Zloty)	5.5183	3.3720	1.9064	2.5423
Portugal	(Escudo)	287.025	181.500	102.615	136.842
Puerto Rico	(US $)	1.6365	1	0.5654	0.7539
Qatar	(Riyal)	5.9584	3.6409	2.0584	2.7451
Reunion Is. de la	(F Fr)	9.7077	5.9320	3.3538	4.4724
Romania	(Leu)	13943.0	8520.00	4816.96	6423.64
Russia	(Rouble)(1)	10.0219m	6.1240	3.4623	4.6172
Rwanda	(Fr)	498.805	304.800	172.320	229.804
St Christopher	(E Carib $)	4.4186	2.7000	1.5265	2.0357
St Helena	(£)	1	0.6111	0.3455	0.4607
St Lucia	(E Carib $)	4.4186	2.7000	1.5265	2.0357
St Pierre & Miquelon	(F Fr)	9.7077	5.9320	3.3538	4.4724
St Vincent	(E Carib $)	4.4186	2.7000	1.5265	2.0357
San Marino	(Italian Lira)	2855.11	1744.65	986.372	1315.37
Sao Tome	(Dobra)	3911.24	2390.00	1351.20	1801.94
Saudi Arabia	(Riyal)	6.1377	3.7505	2.1204	2.8277
Senegal	(CFA Fr)	970.770	593.200	335.378	447.242
Seychelles	(Rupee)	8.3462	5.1000	2.8833	3.8451
Sierra Leone	(Leone)	1472.85	900.000	508.828	678.554
Singapore	($)	2.6479	1.6180	0.9148	1.2199
Slovakia	(Koruna)	55.8243	34.1120	19.2858	25.7187
Slovenia	(Tolar)	269.958	164.959	93.2602	124.371
Solomon Is	($)	7.7023	4.7065	2.6609	3.5485
Somali Rep	(Shilling)	4287.63	2620.00	1481.27	1975.35
South Africa	(Rand)	8.2848	5.0625	2.8622	3.8169
Spain	(Peseta)	245.925	150.275	84.9611	113.300
Spanish Ports in N Africa	(Sp Peseta)	245.925	150.275	84.9611	113.300
Sri Lanka	(Rupee)	104.536	63.8800	36.1216	48.1698
Sudan Rep	(Dinar)	263.951	161.290	91.1861	121.604
Surinam	(Guilder)	656.237	401.000	226.707	302.334
Swaziland	(Lilangeni)	8.2848	5.0625	2.8622	3.8169
Sweden	(Krona)	12.4343	7.5981	4.2957	5.7286
Switzerland	(Fr)	2.4176	1.4773	0.8352	1.1138
Syria	(£)	65.4600	40.0000	22.6142	30.1580
Taiwan	($)	54.3924	33.2370	18.7912	25.0590
Tanzania	(Shilling)	1060.21	647.850	366.265	488.446
Thailand	(Baht)	63.1600	38.6000	21.8233	29.1024
Togo Rep	(CFA Fr)	970.770	593.200	335.378	447.242
Tonga Is	(Pa'anga)	2.5685	1.5695	0.8873	1.1833
Trinidad/Tobago	($)	10.1758	6.2180	3.5154	4.6881
Tunisia	(Dinar)	1.8778	1.1474	0.6487	0.8651
Turkey	(Lira)	411238.1	251290.0	142072.1	189459.8
Turks & Caicos	(US $)	1.6365	1	0.5654	0.7539
Tuvalu	(Australian $)	2.5685	1.5695	0.8873	1.1833
Uganda	(New Shilling)	1963.80	1200.00	678.426	904.739
Ukraine	(Hryvna)	3.3548	2.0500	1.1590	1.5456
U A E	(Dirham)	6.0107	3.6729	2.0766	2.7692
United Kingdom	(£)	1	0.6111	0.3455	0.4607
United States	(US $)	1.6365	1	0.5654	0.7539
Uruguay	(Peso Uruguayo)	16.8888	10.3250	5.8373	7.7845
Vanuatu	(Vatu)	205.602	125.635	71.0304	94.7224
Vatican	(Lira)	2855.11	1744.65	986.372	1315.37
Venezuela	(Bolivar)	878.842o	537.025	303.618	404.889
Vietnam	(Dong)	21242.8	12980.5	7338.59	9786.83
Virgin Is-British	(US $)	1.6365	1	0.5654	0.7539
Virgin Is-US	(US $)	1.6365	1	0.5654	0.7539
Western Samoa	(Tala)	4.7807	2.9274	1.6550	2.2071
Yemen (Rep of)	(Rial)	214.365r	130.990	74.0559	98.7598
Yugoslavia	(New Dinar)	17.4083	10.6381	6.0143	8.0208
Zambia	(Kwacha)	3076.65	1880.00	1062.90	1417.42
Zimbabwe	($)	28.3115	17.3000	9.7808	13.0433
ECU	(ECU)	1.4714	0.8991	0.5083	0.6779
SDR	(SDR)	1.22385	0.739918	0.419850	0.559493

Abbreviations: (o) Free rate; (m) Market rate; (u) Official rate; (r) Parallel rate (f) Tourist rate (e) Currency fixed against the US Dollar (v) Floating rate (1) Market rate now shown for Cuba (2) Name changed from Zaire on May 18th 1997, currency scheduled to change to Congolese Franc (3) Guinea-Bissau adopted the CFA Franc to replace the Peso on 1/5/97 (4) Pakistan Rupee devalued by 8% on 16/10/97 (5) Rouble rebased on 1/1/98. FT, enquiries to Business Research Centre 0171 256 5130. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365. To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls are charged at 50p per minute at all times.
Friday, May 8, 1998

MARKETS WEEK

May 11 - May 17

NEW YORK

By Richard Waters

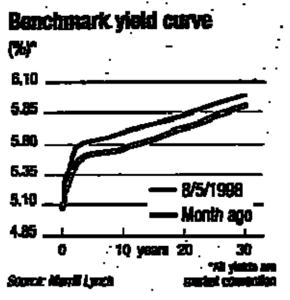
The US bond markets have entered a narrow trading range and, short of a surprise on the inflation front, there seems little on the horizon this week to disturb them.

The latest producer price report, due on Wednesday, is expected to show no change in April in the core index, excluding food and energy. The headline index is expected to show a 0.1 per cent increase, below the 0.3 per cent gain in March. Consumer prices, on the other hand, are projected to have picked up a little during April, with a 0.2 per cent increase in both the core and headline rates.

At these levels, neither would disturb the bond market's belief that inflation remains, for now, a distant threat. Producer prices have fallen at an annualised rate of around 2.5 per cent so far this year, reflecting a fall in energy prices and an almost total lack of inflationary pressure elsewhere.

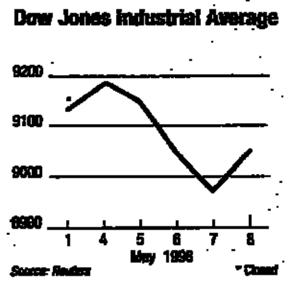
A busy week for economic data will also include the latest industrial production figures on Friday. Capacity utilisation is expected to have fallen again in April, to 81.9 per cent, with industrial production unchanged for the month, figures that would confirm a cooling-off of manufacturing activity.

Benchmark yield curve (%)*



Source: Merrill Lynch. *All yields are market convention

Dow Jones Industrial Average



Source: Reuters. *Closed

LONDON

By Philip Coggan

A host of economic data and the publication of the Bank of England's quarterly inflation report will help investors decide whether UK interest rates have peaked.

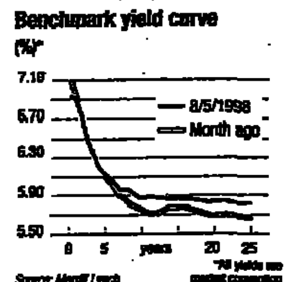
The Bank of England's monetary policy committee left rates on hold last week. The minutes of April's meeting will be released on Wednesday and are expected to show a 5-3 vote in favour of unchanged rates; in previous months, the vote was 4-4.

In particular economists will be looking at the Bank's inflation forecast for the next 18 months to two years.

The statistics are expected to show that manufacturing output and industrial production were flat, month-on-month, in March; that producer input prices (manufacturers' raw material costs) were still falling in April; and that annual average earnings growth was 4.5 per cent in February, the same as in January. All this should reinforce the case for rates to stay put.

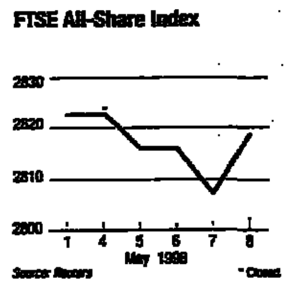
A feeling that UK rates have peaked prompted a fall in sterling last week, with the pound falling below DM2.90 on Friday. Further weakness would prolong the revival in medium and smaller stocks, which have been notching all-time highs.

Benchmark yield curve (%)*



Source: Merrill Lynch. *All yields are market convention

FTSE All-Share Index



Source: Reuters. *Closed

FRANKFURT

By Andrew Fisher

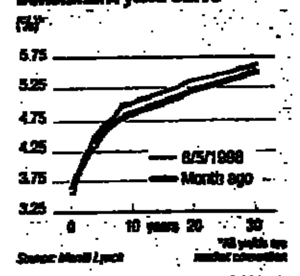
Now the German stock market has established a range of 5,000 to 5,400 for the DAX blue-chip index, analysts and traders expect the consolidation phase to continue for a while. The market showed renewed life on Friday, with a gain of 2 per cent to 5,270.61, but lacked excitement during the week.

Dominating investors' attention was the motor sector, where Daimler-Benz's merger with Chrysler of the US caused a sensation. Daimler shares gained 15 per cent during the week. The battle for Rolls-Royce Motor Cars of the UK took an intriguing turn with news that Vickers, Rolls-Royce's parent, favoured VW's bid over that of BMW. Vickers' shareholders will decide, but all eyes will be on BMW to see how it responds.

Despite the embarrassing compromise over the presidency of the European Central Bank – with the designated Wim Duisenberg agreeing to step down before his eight-year term is up – markets took the decisions at the Brussels summit in their stride.

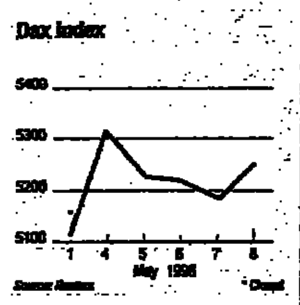
However, the dollar's decline against the D-Mark has taken some of the shine off equities, as have concerns over US and European interest rate rises.

Benchmark yield curve (%)*



Source: Merrill Lynch. *All yields are market convention

Dax Index



Source: Reuters. *Closed

TOKYO

By Bethan Hutton

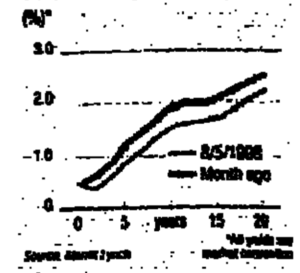
Speculation over a potential interest rate cut, among other factors, pushed Japanese government bond yields to historic lows last week, and that pressure could continue this week.

The yield on the benchmark 10-year bond number 182 dropped as low as 1.32 per cent at one stage on Friday, although the finance minister and other senior officials denied plans to cut the official discount rate, which is already at an all-time low of 0.5 per cent.

Government economists continued to insist that the economy had bottomed out, and the recent economic package would have the required effect, but repetition of these themes had little impact on the markets and the yen continued to weaken.

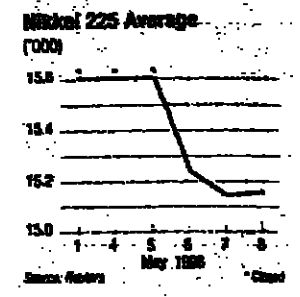
The Tokyo stock market meanwhile, fell back sharply last Wednesday after traders returned from a four-day weekend, but met strong resistance at the 15,000 level of the Nikkei, which is where pension funds are believed to be active buyers. That level is likely to be tested again this week, but should hold for a while in the absence of any other serious negative influences.

Benchmark yield curve (%)*



Source: Merrill Lynch. *All yields are market convention

Nikkei 225 Average ('000)



Source: Reuters. *Closed

COMPANIES DIARY

Royal Nedlloyd to show merger benefits

Royal Nedlloyd, the Dutch transport group, will on Wednesday report a first-quarter net loss of Fl 10m-Fl 33m, down from a loss of Fl 45m a year earlier, according to analysts. The first quarter is traditionally Nedlloyd's weakest.

The results will reflect the negative impact of the overall drop in rates but also the positive effects of merger benefits, which contributed practically nothing to 1997 first-quarter results, but resulted in Fl 50m year-on-year cost savings in last year's fourth quarter.

Nedlloyd's share of the P&O Nedlloyd Container Line joint venture should show a narrower operating loss of Fl 24m, compared with Fl 33m a year earlier. Asia accounts for 40 per cent of P&O Nedlloyd's total volume although the share of countries directly affected by the Asian turmoil is about 5 per cent. Volumes from Asia to Europe are up some 10 per cent, but volumes in the other direction are down, and while higher westbound rates have been announced, it may take up to six months before they are realised. AFX-News, Amsterdam

● Aegon, the Dutch-based insurer, is expected on Thursday to report first-quarter net profits of Fl 514m-Fl 608m, compared with Fl 403.4m a year earlier, according to analysts.

The most important factor in the results will be a substantial rise in US life insurance results after Aegon's acquisition of Providian last year, which was only consolidated from the third quarter of 1997.

Aegon has said that it expected 1998 net profits to rise about 20 per cent and earnings per share to grow about 15 per cent. AFX-News, Amsterdam

● CSM, the Dutch food group, is on Thursday expected to report net profits for the six months to March of Fl 114m-Fl 118m, up from Fl 101.1m a year earlier, according to analysts.

The forecast increase will reflect a positive currency effect, although this will be less pronounced than in the second half of last year. The results will also show a positive year-on-year effect from acquisitions, including the purchase at the end of January 1997 of Karp's, the US bakery ingredients company, and the acquisition in March last year of Malaco, the Scandinavian sugar group. AFX-News, Amsterdam

● Dealings in Thomson Travel Group begin at 8.30am today soon after the UK's largest package holiday group announces the price for its flotation. The issue, which has been heavily oversubscribed by private investors, is expected to be priced at 165p-170p – the top of end of the 140p-170p price range, which values the company at between £1.4bn and £1.7bn. Allocations will also be announced on Monday. Unconditional dealings and admission to the stock exchange will take place on May 18.

● Triad is set to show a full order book and improved margins when the software services company reports final results today. The figures are likely to emphasise the strength and rapid growth available to investors via IT stocks. Analysts expect a pre-tax figure of about £6.3m, up from £2.6m.

● The annual meeting today at JBA Holdings may give some indication of current trading. The shares have suffered following the trading statement in February, and they now stand at about 525p. However, research from Albert E Sharpe suggests the shares could be worth 800p although Glyn Lloyd at the broker has told clients the risks in the business are increasing.

● MMT Computing, the computer systems consultancy, is expected to produce a healthy increase in interim figures tomorrow. Credit Lyonnais forecasts a rise from £2.4m to about £3.5m for the six months to February. The company said at the previous interim stage that margins should increase.

● Final results from Westbury, the housebuilder, on Tuesday are likely to confirm the trend of a sustainable advance in the UK housing market. A consensus of forecasts from First Call suggests a pre-tax figure of £29.3m, up from £22.6m for the same period last time.

● Full-year figures tomorrow from Body Shop International will be examined for the effect of falls in Christmas trading in the US and Japan. In January the retailer said there had been falls in those markets, prompting downgrades to profit forecasts. A consensus of forecasts from First Call suggests a pre-tax figure of £38.2m, similar to the underlying £37m in the same period last time.

● Anticipating Cable and Wireless's interim results on Wednesday is made easier by the fact that subsidiaries Hong Kong Telecom and Cable & Wireless Communications report before the parent. Profits before tax of about £2bn are expected including about £470m worth of exceptionals. There will be interest in the group's progress in disposing of non-core interests, in the integration of the old Mercury Communications into C&WC and in the growth of the company's North American and Australian businesses.

● Interim results from Sage, the accountancy software company, are likely to have been affected by the strength of sterling, although most attention on Wednesday will be focused on the progress of State of the Art, the US accounting software group that Sage bought in January. Graham Brown at Sutherlands forecasts a pre-tax figure of £21.9m, up from £19.3m for the same period the time before. One pointer to the surge in institutional interest is that Merrill Lynch, the broker, this week launched a monthly IT index newsletter for its clients. However, while the IT index has outperformed the FTSE All-Share by about 8 per cent in the past three months, the rise has faltered recently, and the index underperformed the All-Share by almost 2 per cent in the past month.

● Safeway has left little room for speculation on its annual profits figures, having warned in February they would fall from last year's £430m to about £375m. But there remains considerable scope for guessing on its current trading record. After J Sainsbury's announcement last week of sales growth still lagging the industry's 4 per cent there is some hope Safeway will achieve increases of at least 3 per cent. It will have to show at least this level of growth on Wednesday if it is not to fall further from grace.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Fannie Mae	3bn	May 2008	6.00#§	99.554R	6.006	+33½(Feb08)	CSFB/Lehman/MSDW
ING Bank‡	1bn	May 2009	(a)	99.913R	-	-	JP Morgan Securities
Spintab‡	500	May 1999	(b)	100.03	-	-	CSFB
Eurofima	400	May 2002	5.75	99.598R	5.863	+20(5⅝Feb01)	Paribas/TMI
Bankers Trust Australia(c)‡	250	Jan 2008	(c1)	99.812R	-	-	PaineWebber Intl(UK)
Movicom	150	May 2008	9.25#	99.155	9.382	+378(Feb08)	Chase Manhattan Intl
PDVSA Finance, Class A(n1,s)	400	Feb 2004	6.45#	99.8939	6.528	+88(5⅝Apr03)	Morgan Stanley DW
PDVSA Finance, Class B(n2,s)	300	Feb 2006	6.65#	99.8076	6.740	+108(May05)	Morgan Stanley DW
PDVSA Finance, Class C(n3,s)	300	Nov 2008	6.80#	99.7879	6.888	+120(5½Feb08)	Morgan Stanley DW
PDVSA Finance, Class D(n4,s)	400	Aug 2016	7.40#	99.5470	7.516	+155(30yr)	Morgan Stanley DW
PDVSA Finance, Class E(n5,s)	400	Nov 2028	7.50#	99.4704	7.616	+165(30yr)	Morgan Stanley DW
France Telecom	500	May 2008	6.00	98.60R	6.192	+40(5½Feb08)	Paribas/SBC/WDR
Swedish Export Credit	500	May 2003	6.00	99.786R	6.051	+30(5¾Apr03)	ABN Amro/Salomon SB
Disco	100	May 2003	9⅛(l)#	99.938R	9.14	+350(5¾Apr03)	JP Morgan Securities
Disco(x)	350	May 2008	9⅞(l)#	99.342R	9.98	+430(5½Feb08)	JP Morgan Securities
Bca Popolare di Brescia(o)‡	400	Jan 2003	(o1)	100.00R	-	-	Morgan Stanley DW
Deutsche Ausgleichsbank	300	May 2003	5.875	99.718R	5.941	+21(5¾Apr03)	Dresdner/MSDW
Suedwestdeutsche LB	250	May 2008	4¾(j)	97.319R	5.83	+15(5⅝Apr08)	PaineWebber Intl(UK)
Globopar(u,s)	200	Jan 2005	10⅝#	100.30R	10.57	-	Chase/Goldman Sachs
Council of Europe	400	May 2002	5.75	99.65R	5.851	+24½(WI 3yr)	Merrill Lynch/TMI
Freeport Terminal (Malta)(y)	250	May 2028	7.25(l)	99.514R	7.290	+133(30yr)	SG Strauss/BT Alex
Canadian Wheat Board	250	May 2001	5.75	99.665R	5.875	+22(5⅝Feb01)	CIBC Wood Gundy
Komercni Finance(z)‡	200	May 2008	(z1)#	99.56R	9.112	+350(5¾Apr03)	CSFB/JP Morgan Secs
John Deere Credit	150	May 2003	6⅛(l)	99.594R	6.222	+62(5¾Apr03)	Deutsche Bank
Derby Cycle Corp(A)	160	May 2008	10.00#	100.00	10.00	+432(5½Feb08)	Chase Securities
European Inv'ment Bank★	70	Feb 2002	3.1(q)§	92.80	-	-	Nikko Europe
Spintab(L)‡	250	May 1999	(L1)	100.03	-	-	CSFB
TM Group Holdings plc(M)	175	May 2008	11(l)#	100.00R	11.00	+533(5½Feb08)	Goldman Sachs Intl
D-MARKS							
SPT Telecom(t)	250	May 2003	5.125	99.647R	5.207	+58(5⅝Nov02)	Deutsche Bank
Depfa International Finance‡	500	May 2005	(r)	100.01R	-	-	WestLB
Northern German States	1bn	May 2010	5.125	99.22R	5.214	+23(5¼Jan08)	ABN Amro/Commerzbk
Lehman Brothers Hldgs(C)‡	350	May 2005	(C1)	99.847R	-	-	Lehman Bros Bankhaus
Derby Cycle Corp(A)	110	May 2008	9.375#	99.585	9.440	+450(Jan08)	Chase Manhattan Bank
STERLING							
Scottish Power(D)	250	May 2023	6.75	98.421R	6.799	+90(8%-2021)	Barclays Capital
Cades(E)	50	Mar 2008	6.25	99.92	6.257	+38(7¼Dec07)	Merrill Lynch Intl
William Hill Finance plc(a)	150	Apr 2008	10⅝#	100.00	10.63	+475(7¼Dec07)	BT Alex Brown Intl
TM Group Holdings plc(M)	55	May 2008	12¼(l)#	100.00	12.25	+637(7¼Dec07)	Goldman Sachs Intl
FRENCH FRANCS							
BNG	2bn	Jan 2013	5.375	99.76R	5.398	+29(i)	Paribas/SG
YEN							
Hanson Ply Ltd(f)★‡	21bn	Jan 2003	(f1)	100.00	-	-	Sanwa International
ITALIAN LIRE							
City of Moscow	400bn	May 2001	9.875	99.648	10.02	+325(swaps)	Chase Manhattan Intl
SWISS FRANCS							
Dg HYP	200	Jun 2003	2.75	101.80	2.364	-	ABN Amro(Zurich Bch)
LB Rheinland-Pfalz(F)	100	Dec 2002	2.80	99.48	2.138	-	CSFB
GUILDERS							
Dresdner Finance	1bn	Jan 2008	5.25(s)	99.359R	5.334	+28(i)	ABN Amro
PESETAS							
Helaba	12bn	May 2018	5.60	99.075	5.679	-	Caja Madrid/Merrill
European Inv'ment Bank(v)	30bn	Feb 2003	4.50(s)	99.2518	4.716	-5(5¼Jan03)	BSN/Caja de Madrid
EUROS/ECU(e)							
Irish Permanent B/S‡	320	May 2003	(g)	99.74R	-	-	Paribas
Bayerische Hypo(h)	150	Jan 2000	8.50	99.25	-	-	BayerHypo/BayernLB
Crédit Local de France(j)	50	Jan 2005	zero	100.00	-	-	BNP
Sacab Overseas	50	Aug 2003	5.00(l)	102.10	4.53	-	Artesia Luxembourg
Republic of Finland(l)	2bn	Apr 2009	5.00	98.20R	5.219	+8(i)	JP Morgan/Paribas
Deutsche Finance Neths	500	May 2005	5.00	99.826R	5.030	+15(7½Apr05)	Deutsche Bank
GMAC‡	500	May 2003	(u)	99.843R	-	-	Merrill/SBC Warburg DR
Republic of Argentina(G)	750	May 2028	(G)	101.01	9.42	+392(8¼%-04)	ABN Amro
San Paolo, Turin‡	500	Jun 2003	(H)	99.922R	-	-	JP Morgan Securities
CANADIAN DOLLARS							
CIBC(k)‡	100	May 2003	(k1)	99.686R	-	-	CIBC Wood Gundy
NEW ZEALAND DOLLARS							
National Australia Bank	180	Jan 2000	8.25	100.87	7.784	-	RBC DS Global Markets
World Bank(J)	350	May 2003	7.25#	98.805	7.541	-	RBC DS Global Markets
LUXEMBOURG FRANCS							
Argenta Nederland	2bn	Jan 2003	4.60	100.00	4.600	-	BCEE
ESCUDOS							
United Mexican States‡	18.5bn	Jan 2003	(K)	100.00R		-	Banco Fonsecas
GREEK DRACHMA							
European Inv'ment Bank(m)	30bn	Apr 2004	(m1)	99.67R	5.99	-	ABN Amro/Credito
RUSSIAN ROUBLES							
EBRD(w)	600	May 2002	zero	33.96R	-	-	ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ♦With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) 3-mth Libor flat. b) 3-mth Libor -6¼bp. c) Callable from Jan 03 at par. c1) 3-mth Libor +30bp to Jan 03, then +80bp. d) DM500m launched 23/4/98 increased to DM750m. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) Backed by Australian corporate loans. f1) 3-mth Libor +⅛%. g) 3-mth Libor +6¼bp. h) Issuers choice to redeem at par or 4 Volkswagen shares per DM5,000 bond. i) Over interpolated yield. j) Redemption price: 100% + performance of Dexia France shares; max 306%. k) C$250m launched 23/4/98 increased to C$350m. k1) 3-mth BA's +7bp. l) Long 1st coupon. m) Fungible with E1.3bn, LFr2bn, DM1bn, and L750bn upon Emu. m1) 7½% to 15/4/99, 6½% to 00, 5½% to 01, then 5¼%. n) Secured on all receivables. Average life yrs: n1) 4.88, n2) 7.13, n3) 9.88, n4) 17.38, n5) 29.83. o) Callable from Jun 01 at par. o1) 3-mth Libor +25bp. p) Oeffentliche Pfandbrief. q) Fungible with $300m. Plus 54 days accrued. Callable on 5/12/03 at 104½% falling 1½%pa to par on 5/12/06. r) 3-mth Libor +10bp. s) Short 1st coupon. t) Plus 18 days accrued. Fungible with to be issued FM3bn (approx) upon Emu. u) 3-mth Libor +12½bp. v) Fungible with DM2bn and FFr3bn upon Emu. w) All payments in US$. x) Callable from 15/5/03. y) Makewhole call. z) Callable from 14/5/03 at par. z1) 9% to 14/5/03, then 6-mth Libor +500bp. A) Callable after 5 yrs. 33⅓% equity clawback. C) Callable from 27/5/02 at par. C1) 3-mth Libor +35bp. D) Standard UK utility language. E) Fungible with £250m. Plus 75 days accrued. F) Fungible with SFr400m. Plus 157 days accrued. G) 6 detachable 47½% coupons due 28/5/01, 06, 11, 16, 21 & 26. H) 3-mth Libor +6¼bp. J) Includes NZ$100m increase at 98.765%. K) 6-mth Libor +180bp. L) $500m launched 5/5/98 increased to $750m. L1) 3-mth Libor -6¼bp. M) Callable prior to 15/5/03 at applicable premium, thereafter at par. 40% equity clawback. Note: Yields are calculated on ISMA basis.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	28.0	103½	93½	AB Airlines	97½	+2	-	-	-	-
-	F.P.	16.5	325	285	†Ambishus Pub Co	285		-	-	-	-
575	F.P.	391.7	999	715	ARM	812½		-	-	-	-
§	F.P.	-	101½	97½	Aberdeen Cnvtble C	100	+½	-	-	-	-
-	F.P.	-	62	59	Ascot B	61		-	-	-	-
4	F.P.	1.01	5	5	†Crystals G.M. Wells	5		-	-	-	-
-	F.P.	0.04	1	1	†Do Warrants	1		-	-	-	-
-	F.P.	-	100	100	Close Bros AIM VCT	100		-	-	-	-
-	F.P.	76.0	161½	126½	†Desire Petroleum	160½	+½	-	-	-	-
-	F.P.	20.1	20	20	GRE Red Prf B	20		-	-	-	-
§105	F.P.	24.1	127½	115½	JWE Telecom	124½	-1	N1.54	3.9	1.6	20.9
-	F.P.	148.0	94½	72½	London Altico	94	+9	L23	4.2	3.1	8.6
100	F.P.	39.0	97½	97½	Murray VCT 3	97½		-	-	-	-
-	F.P.	-	35½	34½	Transport Dev B	36		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

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Issue price p	Amount paid up	Latest Renun. date	1998 High	1998 Low	Stock	Closing price p	+or-
60	Nil	27/5	1¾pm	1½pm	Avocet Mining	1¾pm	
325	Nil	19/5	44½pm	33pm	Freeport Leisure	43pm	
20	Nil	13/5	13½pm	10½pm	Guinness Peat	11½pm	
12	Nil	29/5	6½pm	5pm	Magnum Power	5½pm	
20	Nil	12/5	17½pm	5pm	Memory Corp	12pm	+½
55	Nil	13/5	10½pm	3¾pm	Monument Oil & Gas	5½pm	+1¼

FTSE GOLD MINES INDEX

	May 8	% chg since 31/12/97	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1232.41	+16.5	35.91	100.00	1.98	-	1610.93	891.23
■ Regional Indices								
Africa (14)	1324.89	+20.0	8.15	25.58	4.09	29.31	1884.25	921.78
Australasia (7)	1412.38	+22.2	3.60	10.02	2.41	19.90	1823.74	933.63
North America (11)	1189.88	+14.2	23.13	64.40	1.05	45.99	1574.16	884.86

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STOCK INDICES

	May 8	May 7	May 6	May 5	May 1	1998 High	1998 Low	Since comp. High	Since comp. Low
FTSE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Fledgling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Fledgling ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT 30	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Govt Securities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Fixed Interest	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbey National Treasury Services FRN. 2009FFr10,975
Access Plus 3.1p
Allied Carpets 2.85p
British Vita 4.5p
Church & Co. 13.5p
CU Environmental Tst. 0.5p
Evans Halshaw Hldgs. 11.5p
First National Bldg. Soc. 11⅝% Perm. Int. IR£568.75
Do. 11¾% Perm. Int. £587.50
Gartmore Smaller Co. 1.5p
Hambro Countrywide 2p
Higher Education Securitised Invst. Series 1 £1,019.05
Do. Class A2 FRN. 2028 £1,055.88
Do. Class A3 FRN. 2028 £1,092.70
Do. Class A4 FRN. 2028 £1,187.38
Do. Class B1 FRN. 2028 £1,253.14
Do. Class B2 FRN. 2028 £1,253.14
Korea Electric Power Corp. FRN. 1998 $14.44
Nippon Express Co. 6% Bds. 1999 Y600,000
Nippon Telegraph & Telephone 1⅞% Bds. 2001 £108.75
Parkwood Hldgs. 1.2p
Peninsular & Oriental Steam Navigation Co. 6% Conv. Bds. $150

■ TOMORROW
Abbey National Treasury Services 6½% Gtd. Bds. 2003 $65
Barclays Bank 9.875% Undtd. Sub. £98.75
Do. Undtd. FRN. $152.40
Baring Puma Fund. $0.25
Christiania Bank og Kreditkasse Prim. Cap. FRN. $304.81
Govett Asian Smaller Co. Invst. Tst. 0.54p
Kier Grp. 2.6p
MTL Inst. 3.2p
National Westminster Bank £2.6523
Pacific Assets Tst. 0.4p
Rentokil Initial 2.17p
Second Market Invst. Co. 2.7p
Sumitomo Realty & Dev. Co. 4.95% Nts. 1998 Y495,000
Takashimaya Co. 6.3% Bds. 1999 Y630,000

■ WEDNESDAY MAY 13
Hazama Corp. 5.5% Bds. 1999 Y550,000
Housing Finance Corp. 8⅝% Db. 2023 £4.3125
North Midland Construction 2.5p
SPI Finance 8.75% Undtd. Sub. Bds. £8.75
Tokyo Electric Power Co. 7⅛% Nts. 1998 £71.25
Whitchurch Grp. 1p

■ THURSDAY MAY 14
Abbey National Treasury Services 6¼% Gtd. Nts. 1999 $62.50
Fujitsu 7% Bds. 1998 Y700,000
Lambert Howarth Grp. 5.75p
Lloyds Smaller Co. Invst. Tst. 2.3p
Do. 2.3p
Radius Grp. 0.55p
Readymix Ir3.75p
Wimpey (George) 3.7p

■ FRIDAY MAY 15
Alliance Tst. 4½% Db. £2.25
Barclays Bank 16% Unsec. Cap. 2002/07 £8
Bergesen NKr2
BES Overseas series A $0.46
Billam 3.1p
Birmingham District Council 11½Rd. 2012 £5.75
Bristol & West 8.125% 6.478p
Britannic Assurance 23.6p
British Gov't. Stocks £4.875
British Polythene Industries 13.6
Burndene Invst. 15% Unsec. 2007/12 £7.50
Cape 3.5p
Colgate-Palmolive $0.275
Commercial Union 20.25p
Dawson Intl. 1.1p
Dialog Corp. 11% Sen. Sub. 2007 $55
Dowding & Mills 1.13p
EBC Grp. 1.75p
Export-Import Bank of Japan 6⅝% Gtd. Bds. 2007 FFr662.50
Do. 10¾% Gtd. Bds. 2001 £107.50
F.B.D. Hldgs. Ir5p
Foreign & Colonial Smaller Co. 8% Cm. Pf. £2.10
Forminster 2.15p
Fulmar 3.4p
GESB 8.35% Gtd. Bds. 2018 £41.75
GKN 19p
Glasgow Corp. 3½% £1.75
Do. Gas 6¾% £3.375
Do. Gas 9% £4.50
Do. Water Ann. 50p
Do.Waterworks £1.75
Do. Waterworks 4% £2
Halifax 9⅜% Sub. Bds. 2021 £937.50
Hanson 8p
Inter-American Dev.Bk. 9¾% 2015 £4.875
Investors Capital Tst. 4% db. £2
Johnston Press 2p
Kalon Grp. 4.2p
Marsh & McLennan Cos. $0.50
Minerals Oils & Resources Shares £0.20
Minorco $0.42
Morrison (Wm) Supermarkets 1.7p
Mosney Irish Holidays 5.5% Cm. Pf. IR2.18p
Ottawa-Carleton 9⅜% Dbs. 1998 C$93.75
Do. 9⅝% Dbs. 2006 C$96.25
Premier Oil 0.605p
Premium Tst. 0.5p
Prospect 2 Class A £1,910.18
Do. Class B £1,972.51
Do. Class C 2010 £998.72
Psion 1.8p
Rosebys 8.7p
Sanwa Bank Canada FRN. 2005 $1,480.21
Sanwa Finance Aruba FRN. 2004 $1,531.48
Scottish American Invst. Co. 4% Db. £2
Scottish Eastern Invst. Tst. 0.19p
Do. 1.3p
Do. 4% Db. £2
Do. 4% Perp. Db. £2
Scottish Mortgage & Tst. 4½% Db. £2.25
Second Alliance Tst. 4½% Db. £2.25
Shell Transport & Trading Co. 8p
SIG 5.2p
Springwood 1p
Trafford Park Estates 1.25p
Transport Development Grp. 5.5p
Do. 45.6p
Wyndham Motor Grp. 5p

■ SUNDAY MAY 17
British Land Co. 6½% Conv. Bds 2007 £32.50

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
The Merchants Tst., 20 Fenchurch St., E.C. 12.30
BOARD MEETINGS:
Finals:
Bett Brothers
Cable & Wireless Comm.
Hitachi Credit (UK)
Triad Grp.

■ TOMORROW
COMPANY MEETINGS:
BLP Grp., Doncaster Moat House, High Rd, Warmsworth Doncaster, 11.00
CMG, Stationers Hall, Ave Maria Lane, E.C. 10.00
Delta, Adelphi Suite, The Waldorf, Aldwych, W.C. 12.00
Fairey Grp. Founders Hall, 1 Clothfair E.C. 12.00
Haden Maclellan Hldgs., Great Fosters, Stroude Rd, Egham, Surrey 12.00
The Central European Growth Fund, The City of London Club, 19 Old Broad St., E. 11.30
The Scottish Eastern Invst. Tst., Saltire Court, 20 Castle Terrace, Edinburgh 12.00
Try Grp., Cowley Business Park, Cowley, Uxbridge, Middlesex 12.00
BOARD MEETINGS:
Finals:
Bertam Hldgs.
Body Shop Intl.
Celsis Intl.
Rowe Evans
Interims:
BOC
Deltron Electronics
Holmes & Marchant Grp.
M.M.T. Computing
Nordanglia Education
Vaux Grp.

■ WEDNESDAY MAY 13
COMPANY MEETINGS:
ISA Intl., Rawdon Ct., 20 Leeds Rd, Rawdon, Leeds 10.00
Jacobs, The Mayfair Inter-Continental Hotel, Stratton St., W. 11.00
Nichols (JN)(Vimto), Ledson Rd, Wythenshawe, Manchester 11.00
Rio Tinto, The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, S.W. 11.00
Wates City of Lon, The Insurance Hall, 20 Aldermanbury, E.C. 10.30
BOARD MEETINGS:
Finals:
Albany Invst. Tst.
GreycoatInterims:
Fenner

■ THURSDAY MAY 14
COMPANY MEETINGS:
Canning (W), 133 Great Hampton St., Birmingham 12.00
Fidelity Japanese Values, 25 Lovat Lane, E.C. 11.45
Johnson Fry HLdgs., 20 Regent St., S.W. 2.00
Rutland Tst., Rutland House, Rutland Gdns, S.W. 12.00
TI Grp., Glaziers Hall, 9 Montague Close, London Bridge, S.E., 12.00
BOARD MEETINGS:
Finals:
Abacus Polar
Bank of Ireland
Ferguson Intl.
Scottish Radio Hldgs.
Interims:
Alvis
Car Grp.
Quadramatic
Shaftesbury
Tomkinsons

■ FRIDAY MAY 15
COMPANY MEETINGS:
Bilton, The Jarvis Carnarvon Hotel, Ealing Common, W. 10.00LucasVarity, The Brewery, Chiswell St., E.C. 3.30
Peninsular & Oriental Steam Navigation Co., The Queen Elizabeth II Conference Centre, Broad Sanctuary, S.W. 11.00
Rugby Grp., Crown House, Rugby 12.30
United News & Media, BAFTA, 195 Piccadilly, W. 2.30
BOARD MEETINGS:
Finals:
Crompton Greaves
Interims:
Chrysalis Grp.

Company meetings are annual general meetings unless stated. Reports and accounts are not available until approximately six weeks after the board meeting to approve the preliminary results.This list is not comprehensive since companies are not obliged to notify the Stock Exchange of announcements.

CONFERENCES & EXHIBITIONS

Conferences & Exhibitions

MAY 12 - 14
Internet World UK Spring 98
Explore the UK's largest exhibition of Internet and Intranet business solutions. Learn how to integrate Internet, Intranet and Web strategies. Understand the technology and its applications. Focused on providing real solutions to business problems.
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Or go to: www.internetworld.co.uk
Olympia, LONDON

3rd Turkish Power Industry Forum 98 - Senior Executives
Privatization, Financing, Regulation, Projects (Gas & Electricity)
Keynote: Minister Cumhur Ersumer, Ministry of Energy & Natural Resources. TEAS, BOTAS, Undersecretariat of Treasury, InterGen, National Power, NV Nederlandse Gasunie, GAMA Industries, Shell International Gas Ltd, The World Bank, Koç Holding, Howard Energy Int., Stewart & Stevenson, CMS Electric & Gas Co., PacifiCorp, Taylor-De-Jongh, The AES Corporation, ABB Project & Trade Finance.
Phone: 00 31 30 2650963
Fax: 00 31 30 2650928
Istanbul

MAY 18 - 21
Auditing the Dealing Room
(De-mystifying Treasury and Capital markets operations)
NEW FORMAT - four days training for internal auditors of Treasury and Capital markets operations - FX and MM - Bonds - Derivatives - dealing, Risk, limits, controls, management information. GBP 995.00 + VAT
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MAY 20
Putting the Consumer First? - Regulating Utilities
A News Magazine conference, focusing on the Government's utilities green paper. Will the new regulation framework balance fairness & efficiency? Will it benefit shareholders, consumers, & achieve its wider social & environmental aims: What is the future for utilities? Chairman: Prof Ralph Turvey, CSRI. Speakers include: regulators, utilities, academics, & main party political spokesmen.
Contact: Kevin Terry Tel: 0171 878 1580
LONDON

MAY 20 - 22
And More Dates for 1998
Corporate Funding
Profiles the activities of the bank & capital markets highlighting the reasons for the funding, the process by which funding is obtained & the impact on corporate financial structuring. • Bank financing • Bilateral financing • Capital markets instruments • Hybrid forms of financing • Use of derivatives in hedging financing risks • Capital structuring, cost of capital & funding strategies • lending procedures & consideration in various debt & equity markets.
Contact: BPP Training & Consultancy
Tel: 0171 628 6444 Fax: 0171 628 7818
Email: bpptraining@compuserve.com
LONDON

FORO EURO-ANDINO 98
May 26 & 27
Commonwealth Conference & Events Centre
London
2-day economic forum organised by the European Commission and the Andean Community to promote trade between EU member states and the Andean countries (Bolivia, Colombia, Ecuador, Peru and Venezuela). Attended by high-level representatives from European Commission and Andean Community, Andean governments, trade associations, chambers of commerce and senior business people. Workshops on 6 sectors: agriculture, fisheries & agro-industry; energy & mining; textiles, clothing & leather; metal production; tourism, transport & financial services; and infrastructure.
For more information, consult web site: http://www.foro-euro-andino98.org

MAY 26 & 27
Managing the Corporate Brand
Seminars in London (May 26) and Amsterdam (May 27) will present new research from The Conference Board on cross-border branding in over 100 leading companies world-wide. Speakers from Bass, Norwich Union, Akzo Nobel and Océ will share their different experiences of successful brand management.
Contact: Jory Bobay at The Conference Board Europe in Brussels
Tel: +32 2 675 5405
Fax: +32 2 675 0395
Email: bobayj@conference-board.org
LONDON and AMSTERDAM

MAY 26 - 27
Negotiating in the International Arena
Unlocking the Secrets of Successful International Business Deals.
The seminar guides the participants through the three phases of effective negotiations: deal making, deal managing and deal mending. Avoid conflict and strengthen business relationships for mutual gain.
2 Days £590
Contact: Moira McKinley
Tel: 01382 344303 Fax: 01382 322578
Email: cpmlp@dundee.ac.uk
LONDON

MAY 25 - 29
Introduction to the City and Financial Markets
• Historical Role of the City • The Role of the Bank of England • Banking System and Market Participants • Organisational Structure and Services at Major Banks • Non Bank Financial Institutions • Capital, Money and Risk Management Markets • The London Stock Market • Technology and Jargon
5 Days £875 + VAT
Contact: Birchin International plc
New Address: 1 Lombard St, EC3V 9AA, London
Tel: 0171 929 6633 Fax: 0171 929 6644
Email: birchin@birchin.com
Internet: http://www.birchin.com
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MAY 27
The expert on Six Thinking Hats, Lateral Thinking and DATT - Creator DR EDWARD DE BONO presents
SERIOUS CREATIVITY & LATERAL THINKING FOR MANAGEMENT
Call: +44 181 871 2546 for details
Fax: +44 181 871 3866
Email: info@monodeck.co.uk
LONDON

JUNE 1 - 5
CommunicAsia 98, MobilecommAsia98, NetworkAsia 98 International Conference
Convergence or Competition: What's Real and Who Benefits?
The "must go" Asian conference of the year together with Asia's largest ever info-communication exhibition.
Full details and registration on http://www.usmonroe.com/Cma/Cma98ban or call Zinas Hassan on +44 171 862 2082.
Great travel packages available!
SINGAPORE

JUNE 2 - 3
Preparing for EMU: The IT Challenge
This event enables you to learn from the experience of practitioners, establish the contribution IT can make to EMU Strategy, and be fully briefed on all IT aspects of EMU.
http://www.business-intelligence.co.uk
Tel: 0181 879 3355
Fax: 0181 879 1122
Email: jane.mills@business-intelligence.co.uk
LONDON

JUNE 4
TFL TRAINING
Bonds Processing
Covering: Pre-Settlement activities, Confirmations, Instructions, Intermediaries, Central Security Depositories including Euroclear and Cedel, Custodians, Settlement Reports and Monitoring, Fails Control, Reconciliations & Accounting Overview.
£450.00 + VAT 1 Day
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Fax: 0171 600 3751
E-mail: Sales@tfl-training.demon.co.uk
LONDON

JUNE 5
TFL TRAINING
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VVC Exhibition Centre, Moscow

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More information: PennWell Energy & Utility Group
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Fax: +31 30 265 0928
Milan, Italy

Conferences & Exhibitions

JUNE 15 & 16
The 3rd World Aluminium Conference
Speakers confirmed for this event, in association with CRU International, include senior executives from Alcan Aluminium Limited, Billiton Aluminium BV, Hydro Aluminium Extrusion, Kaiser Aluminium, Alusuisse Industries SDN BHT, Aluminium Bahrain and Aluminij AO
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Tel: +44 171 896 2120
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JUNE 15 - 16
And More Dates for 1998
Management Techniques
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JUNE 15 - 17
The Fifth International Derivatives Conference
The conference addresses the impact of the Euro, Year 2000 and reform of financial regulation and the effects this will have on participants in the derivatives industry.
Contact: FIA Tel: 001 202 466 5460 or FOA Tel: +44 171 426 7250
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JUNE 15 - 19
International Investment
Designed to provide a firm understanding of the principal legal, policy, and institutional issues related to international investment. Seminars, hands-on training exercises, and case studies will give participants practical knowledge and experience that will help enhance professional market value. Organizers: American University and CEPMLP/Dundee. Other related workshops are available. 5 Days US$1750
Contact: Gabriel Eckstein
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Email: eckstein@wcl.american.edu
WASHINGTON D.C.

JUNE 16 - 18
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For Financial Controllers and Corporate Treasury Personnel. Understand how your banker thinks. Bank borrowing and Sales Finance. Achieve a EURO compliant Treasury. Experience hands-on dealing (PC based simulation)
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JUNE 17
International Grains Council World Grains Conference '98
"Open grain markets...going for growth"
Speakers will focus on opportunities for expanding trade in a price-conscious market increasingly driven by end-user needs and by the growing importance of grain-based products.
Contact: International Grains Council
Tel: +44 171 513 1122
Fax: +44 171 513 0630
LONDON

JUNE 17 - 18
The International Independent Film Industry and The Capital Markets
The conference will discuss the evolving relationship between the international independent film industry, and the world of finance. Speakers include: The Rt Hon Tom Clarke CBE JP MP, Minister of State for Film and Tourism, Premila Hoon, Société Générale.
Enquiries: Sian Fancourt
Tel: 0171 896 2626 Fax: 0171 896 2696
E-mail: sianf@pearson-pro.com
www.ftconferences.com
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Conferences & Exhibitions

JUNE 22 - 26
International Finance
Experts from private practice, corporations, international organisations, governmental institutions and academia will provide a solid grounding in the issues related to international Finance. Of interest to: lawyers, negotiators, business executives and government officials. Organizers: American University and CEPMLP/Dundee. Other related workshops are available. 5 Days US$1750
Contact: Gabriel Eckstein
Tel: 202 274 4000 Fax: 202 274 4130
Email: eckstein@wcl.american.edu
WASHINGTON D.C.

JUNE 25 - 26
Linking the Balanced Scorecard to Strategy
Don't miss Professor Robert Kaplan, co-founder of the Balanced Business Scorecard, at his first personal UK appearance this year. He, and a top-class speaker panel, will give you the advice you need to develop a scorecard framework.
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Email: jane.mills@business-intelligence.co.uk
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Financial Times

JUNE 29 - JULY 1
Third Roundtable with the Government of Romania
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The Economist Conferences
Tel: (43.1) 712 41 61 15
Fax: (43.1) 714 67 69
E-mail: monikadavies@eiu.com
Bucharest, ROMANIA

JUNE 30 - JULY 1
The Corporate Desktop: Technology, Status & Business Impact
How to harness the technological developments - the transition to Windows '98, "webtop" technologies; "thin" clients, etc., taking into account Total Cost of Ownership; the outsourcing option; service levels; handling the supplier/client relationship; risks and downsides. The essential best practice for managing a cost-effective desktop today and a migration strategy for tomorrow.
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JULY 6 & 7
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JULY 14 - 15
Knowledge...Intellectual Capital & The Value Chain
Case studies and overviews of the processes, best practices and experiences: practical systems and tools in key areas of Knowledge Management. Keynote presentation by Fortune Magazine's Tom Stewart, author of the best seller "Intellectual Capital: The New Wealth of Organizations", a finalist for the Booz-Allen/Financial Times "Business Book of the Year" Award.
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SEPTEMBER 3 & 4
FT World Aerospace and Air Transport Conference
This event will examine the strategic implications of current consolidation and restructuring of the civil and defence aerospace manufacturing and civil aviation sectors. Confirmed speakers include senior executives from Airbus Industrie, British Airways plc, Banque Paribas and Cranfield College of Aeronautics.
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SEPTEMBER 15 & 16
The 2nd FT World Water Conference
The Global water industry has faced great change and uncertainty over the last twelve months. This Financial Times conference provides a unique opportunity to debate the challenges ahead with senior industry colleagues, political decision makers and potential project financiers.
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International Real Estate Finance Conference "Creating a New Synergy: Global Partnerships in Real Estate Finance"
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For further information contact
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Tel: 202 861 6580
Fax: 202 861 0736
Email: international@mbaa.org
Mortgage Bankers Association of America
Maui, Hawaii, USA

Conferences & Exhibitions

SEPTEMBER 24 & 25
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Creating Markets and Profits in Stainless Steel
This FT Conference, organised with CRU International, will consider the impact of global over-capacity within the sector and the need to create and develop new markets in stainless steel. Raw material availability will also be among the issues addressed.
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CURRENCIES & MONEY

Focus on inflation

By Simon Kuper

Inflation, dormant though it appears, is the theme of the week. Virtually every country with a currency that matters will be publishing its latest price data. These should move the market, as many investors believe Germany or the US will raise interest rates soon.

Figure of the week is US consumer prices for April, out on Thursday. Traders will be watching for any move upward from the present 1.4 per cent, since the Federal Reserve's Open Market committee meets on May 19 and some Fed officials have hinted that rates may need raising. Adding to the tension, non-farm payrolls data on Friday showed the number of employed Americans still increasing fast. The US also publishes April producer prices on Wednesday.

The prospect of a rate increase may not help the dollar. If it hits Wall Street and US Treasuries, the currency could suffer too.

The dollar has been falling against the D-Mark in recent weeks, with many in the market convinced that its three-year advance is over.

German consumer prices for April appear today. Inflation in Germany is even lower than in the US, with the annual figure running at 1.1 per cent, but any bounce could spook the market.

Now that the Bundesbank is making monetary policy with an eye on Europe, the market will also watch French, Spanish, and even Dutch consumer price figures for April.

The pound has dropped 21 pfennigs in the past 40 days as the market concluded UK base rates have peaked at 7.25 per cent.

But UK average earnings, unemployment, the Bank of England's quarterly Inflation Report, and the minutes of the April meeting of the Bank's monetary policy committee all appear on Wednesday. Any signs of live inflation should help sterling.

POUND SPOT FORWARD AGAINST THE POUND

May 8		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.3876	-0.0589	579 - 172	20.5160	20.3334	20.3013	3.9	20.1784	3.7	19.7242	3.2	103.1
Belgium	(BFr)	59.7159	-0.1536	967 - 751	60.1760	59.6567	59.5289	3.8	59.1703	3.7	57.8243	3.2	102.6
Denmark	(DKr)	11.0295	-0.0272	245 - 345	11.1225	11.0210	11.0057	2.6	10.9586	2.5	10.7634	2.4	104.8
Finland	(FM)	8.7976	-0.0208	910 - 046	8.8648	8.7860	8.7701	3.8	8.7185	3.6	8.5262	3.1	80.7
France	(FFr)	9.7077	-0.0247	031 - 123	9.7794	9.6625	9.6759	3.9	9.6164	3.7	9.3977	3.2	106.1
Germany	(DM)	2.8946	-0.0083	933 - 958	2.9188	2.8800	2.8851	3.3	2.8675	3.7	2.8022	3.2	104.1
Greece	(Dr)	504.255	-2.96	003 - 507	509.712	504.003	506.438	-5.2	510.864	-5.0	522.038	-3.7	59.4
Ireland	(I£)	1.1625	-0.005	513 - 536	1.1589	1.1508	1.1616	1.0	1.1489	1.3	1.1283	2.1	94.7
Italy	(L)	2855.11	-8.38	335 - 688	2877.75	2851.23	2850.35	2.0	2838.37	2.3	2778.86	2.7	76.8
Luxembourg	(LFr)	59.7159	-0.1536	567 - 751	60.1760	59.6567	59.5289	3.8	59.1703	3.7	57.8243	3.2	102.6
Netherlands	(Fl)	3.2618	-0.0086	601 - 635	3.2878	3.2579	3.2511	3.9	3.2313	3.7	3.1575	3.2	102.0
Norway	(NKr)	12.1634	-0.0295	572 - 695	12.2266	12.0631	12.0081	3.4	12.0084	3.1	11.8055	2.5	96.6
Portugal	(Es)	297.825	-0.281	852 - 197	298.485	296.271	296.287	3.0	294.703	3.1	288.137	3.0	91.9
Spain	(Pta)	245.925	-0.64	809 - 041	247.690	245.550	245.298	3.1	244.038	3.1	238.697	2.9	76.5
Sweden	(SKr)	12.4343	-0.0520	261 - 425	12.5830	12.4061	12.4047	2.9	12.3463	2.7	12.1454	2.3	87.8
Switzerland	(SFr)	2.4176	-0.0094	160 - 192	2.4310	2.4076	2.4065	6.0	2.3922	5.9	2.332	6.2	105.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.0
Ecu	-	1.4714	-0.0026	689 - 728	1.4805	1.4667	1.4675	3.2	1.4599	3.1	1.4287	2.9	-
SDR†	-	1.223830	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6358	-0.0098	353 - 363	1.6477	1.6331	-	-	-	-	-	-	-
Brazil	(R$)	1.8737	-0.0103	729 - 744	1.8860	1.8700	-	-	-	-	-	-	-
Canada	(C$)	2.3476	-0.022	467 - 485	2.3677	2.3440	2.3426	2.6	2.3337	2.4	2.3021	1.9	82.3
Mexico	(New Peso)	13.8759	-0.113	635 - 883	14.0123	13.8629	14.0128	-11.8	14.3065	-12.4	15.5963	-12.4	-
USA	($)	1.6365	-0.0094	360 - 370	1.6485	1.6338	1.6341	1.8	1.6295	1.7	1.6133	1.4	109.3
Pacific/Middle East/Africa													
Australia	(A$)	2.5985	-0.0199	957 - 003	2.5952	2.5887	2.5933	2.4	2.5827	2.5	2.5107	2.3	83.9
Hong Kong	(HK$)	12.6821	-0.0724	774 - 868	12.7742	12.6630	12.6783	0.3	12.6805	0.0	12.9101	-1.8	-
India	(Rs)	65.1000	-0.3637	282 - 685	65.5610	65.0330	-	-	-	-	-	-	-
Israel	(Shk)	6.0264	-0.0475	195 - 333	6.0413	6.0005	-	-	-	-	-	-	-
Japan	(Y)	217.057	-1.899	934 - 181	220.080	216.760	215.777	7.1	213.282	7.0	203.377	6.5	116.3
Malaysia	(M$)	6.2351	-0.0885	250 - 452	6.4066	6.0963	6.3238	-17.1	6.4447	-13.4	6.8347	-9.5	-
New Zealand	(NZ$)	3.0003	-0.0254	974 - 031	3.0431	2.9922	3.0043	-1.6	3.0113	-1.5	3.0375	-1.2	96.8
Philippines	(Peso)	64.4783	-0.0944	464 - 101	64.5551	64.0249	65.0849	-11.3	66.0112	-9.5	70.5462	-9.6	-
Saudi Arabia	(SR)	6.1377	-0.0352	357 - 397	6.1822	6.1277	6.1311	1.3	6.1194	1.2	6.0319	0.9	-
Singapore	(S$)	2.6479	-0.0225	454 - 503	2.6854	2.6395	2.6521	-1.9	2.6467	-0.1	2.6516	-0.1	-
South Africa	(R)	8.2848	-0.0523	798 - 898	8.3439	8.2788	8.3356	-7.3	8.4168	-6.4	8.7471	-5.6	-
South Korea	(Won)	2269.83	-36.63	586 - 379	2316.95	2265.85	-	-	-	-	-	-	-
Taiwan	(T$)	54.3934	-0.1709	561 - 285	54.7467	54.3222	54.4391	-0.8	54.5256	-1.0	54.8329	-0.8	-
Thailand	(Bt)	63.1690	-0.0958	860 - 519	64.0440	63.0379	65.5254	-44.8	67.3754	-26.7	73.553	-16.5	-

† Rates for May 7. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 8		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.4458	+0.0349	437 - 479	12.4870	12.4250	12.424	2.1	12.384	2.0	12.2215	1.8	103.9
Belgium	(BFr)	36.4900	+0.114	650 - 150	36.7000	36.4300	36.4305	2.0	36.3125	1.9	35.83	1.8	102.7
Denmark	(DKr)	6.7397	+0.0157	387 - 407	6.7568	6.7347	6.7352	0.8	6.7252	0.9	6.6731	1.0	104.2
Finland	(FM)	5.3760	+0.0178	735 - 785	5.3935	5.3675	5.3672	2.0	5.3520	1.9	5.2925	1.7	80.4
France	(FFr)	5.9330	+0.0187	310 - 330	5.9527	5.9184	5.9215	2.1	5.9016	2.1	5.8232	1.8	105.7
Germany	(DM)	1.7698	+0.005	685 - 690	1.7751	1.7680	1.7658	2.1	1.7569	2.0	1.7303	1.9	103.9
Greece	(Dr)	308.130	-0.06	070 - 190	311.150	307.840	309.93	-7.0	313.33	-6.8	324.13	-5.2	57.3
Ireland	(I£)	1.4200	-0.002	190 - 210	1.4245	1.4150	1.419	0.8	1.4184	0.5	1.4097	-0.7	-
Italy	(L)	1744.65	+4.82	410 - 519	1750.85	1741.80	1744.36	0.2	1741.69	0.6	1721.95	1.1	75.0
Luxembourg	(LFr)	36.4900	+0.114	650 - 150	36.7000	36.4300	36.4305	2.0	36.3125	1.9	35.83	1.5	102.7
Netherlands	(Fl)	1.9932	+0.0061	927 - 936	2.0003	1.9900	1.9897	2.1	1.983	2.0	1.9566	1.6	101.9
Norway	(NKr)	7.3959	+0.0241	944 - 974	7.4290	7.3790	7.3861	1.6	7.3685	1.4	7.3151	1.1	96.1
Portugal	(Es)	181.500	+0.86	450 - 550	181.750	181.010	181.321	1.2	180.857	1.4	178.54	1.1	92.5
Spain	(Pta)	150.275	+0.465	250 - 300	150.800	150.110	150.117	1.3	149.765	1.4	147.905	1.6	76.7
Sweden	(SKr)	7.5981	+0.0111	954 - 008	7.6400	7.5941	7.5915	1.1	7.5787	1.0	7.5057	1.0	57.4
Switzerland	(SFr)	1.4773	+0.0082	768 - 778	1.4808	1.4709	1.4721	4.2	1.462	4.2	1.4202	3.9	105.7
UK	(£)	1.6365	-0.0094	360 - 370	1.6485	1.6338	1.6341	1.8	1.6295	1.7	1.6139	1.4	103.1
Ecu	-	1.1123	-0.0042	115 - 130	1.1156	1.1095	1.1136	-1.3	1.1163	-1.4	1.1292	-1.6	-
SDR†	-	0.73892	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	-0.0003	996 - 998	0.9996	0.9996	-	-	-	-	-	-	-
Brazil	(R$)	1.1449	+0.0002	448 - 450	1.1454	1.1448	-	-	-	-	-	-	-
Canada	(C$)	1.4347	-0.0052	344 - 349	1.4373	1.4336	1.4338	0.8	1.4323	0.7	1.4265	0.6	82.2
Mexico	(New Peso)	8.4790	-0.0205	740 - 840	8.4850	8.4740	8.5755	-13.7	8.79	14.2	9.664	-14.0	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	110.3
Pacific/Middle East/Africa													
Australia	(A$)	1.5695	-0.003	689 - 701	1.5751	1.5659	1.5687	0.6	1.5661	0.9	1.5554	0.9	83.3
Hong Kong	(HK$)	7.7495	-	490 - 500	7.7500	7.7490	7.759	-1.5	7.782	-1.7	7.9995	-3.2	-
India	(Rs)	39.7800	+0.005	550 - 050	39.9050	39.7550	-	-	-	-	-	-	-
Israel	(Shk)	3.6825	-0.0079	794 - 856	3.6932	3.6794	-	-	-	-	-	-	-
Japan	(Y)	132.835	-0.4	800 - 670	133.480	132.350	132.065	5.2	130.89	5.3	125.71	5.2	116.9
Malaysia	(M$)	3.8100	-0.0328	050 - 150	3.8900	3.7300	3.87	-18.9	3.955	-15.2	4.235	-11.2	-
New Zealand	(NZ$)	1.8333	-0.0051	322 - 345	1.8477	1.8268	1.8364	-2.0	1.8418	-1.9	1.8606	-1.5	-
Philippines	(Peso)	39.4000	-0.35	500 - 500	39.6500	39.1500	39.8305	-13.1	40.5105	-11.3	43.7745	-11.1	-
Saudi Arabia	(SR)	3.7505	-0.0001	504 - 506	3.7506	3.7504	3.7522	-0.5	3.7565	-0.5	3.7686	-0.5	-
Singapore	(S$)	1.6180	-0.0075	170 - 190	1.6305	1.5890	1.623	-3.7	1.6256	-1.9	1.641	-1.5	-
South Africa	(R)	5.0625	-0.003	610 - 640	5.0850	5.0600	5.1011	-9.2	5.1653	-8.1	5.42	-7.1	-
South Korea	(Won)	1387.00	-14.5	500 - 900	1406.00	1385.00	-	-	-	-	-	-	-
Taiwan	(T$)	33.2370	+0.085	250 - 490	33.2490	33.1800	33.3095	-2.6	33.457	-2.7	33.977	-2.2	-
Thailand	(Bt)	38.6000	-0.325	000 - 000	38.9000	38.5000	40.1	-46.6	41.35	-28.5	45.6	-18.1	-

† SDR rate per $ for May 7. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 7. Base average 1990=100. Bid, offer, and spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 8		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.26	4.847	1.930	4781	5.462	20.27	497.4	411.8	20.82	4.049	1.675	3.932	2.740	383.5	2.464
Denmark	(DKr)	54.14	10	8.802	2.624	1.045	2589	2.957	10.97	269.3	223.0	11.27	2.192	0.907	2.129	1.484	198.8	1.334
France	(FFr)	61.51	11.36	10	2.982	1.187	2941	3.360	12.47	306.0	253.3	12.81	2.490	1.030	2.419	1.686	223.6	1.516
Germany	(DM)	20.63	3.810	3.354	1	0.398	986.3	1.127	4.181	102.6	84.96	4.296	0.835	0.345	0.811	0.565	74.99	0.508
Ireland	(I£)	51.82	9.570	8.423	2.512	1	2477	2.830	10.50	257.7	213.4	10.79	2.098	0.868	2.037	1.420	188.3	1.277
Italy	(L)	2.092	0.386	0.340	0.101	0.040	100	0.114	0.424	10.40	8.614	0.436	0.085	0.035	0.082	0.057	7.602	0.052
Netherlands	(Fl)	18.31	3.381	2.976	0.887	0.353	875.3	1	3.711	91.06	75.39	3.812	0.741	0.307	0.720	0.502	66.54	0.451
Norway	(NKr)	49.34	9.113	8.021	2.392	0.952	2359	2.695	10	245.4	203.2	10.27	1.997	0.826	1.940	1.352	179.3	1.216
Portugal	(Es)	20.10	3.713	3.268	0.975	0.388	961.2	1.098	4.075	100	82.80	4.186	0.814	0.337	0.790	0.551	73.08	0.495
Spain	(Pta)	24.28	4.485	3.947	1.177	0.469	1161	1.326	4.922	120.8	100	5.056	0.983	0.407	0.955	0.665	88.26	0.598
Sweden	(SKr)	48.03	8.870	7.807	2.328	0.927	2296	2.623	9.734	238.9	197.8	10	1.944	0.804	1.888	1.316	174.6	1.183
Switzerland	(SFr)	24.70	4.562	4.015	1.197	0.477	1181	1.349	5.006	122.9	101.7	5.143	1	0.414	0.971	0.677	89.78	0.609
UK	(£)	59.72	11.03	9.708	2.895	1.152	2856	3.262	12.10	297.0	245.9	12.43	2.418	1	2.348	1.637	217.1	1.471
Canada	(C$)	25.43	4.698	4.135	1.233	0.491	1216	1.389	5.155	126.5	104.7	5.296	1.030	0.426	1	0.697	92.45	0.627
USA	($)	36.49	6.740	5.932	1.769	0.704	1745	1.993	7.396	181.5	150.3	7.598	1.477	0.611	1.435	1	132.6	0.899
Japan	(Y)	27.51	5.081	4.472	1.334	0.531	1315	1.503	5.576	136.8	113.3	5.729	1.114	0.461	1.082	0.754	100	0.678
Ecu		40.59	7.497	6.598	1.967	0.783	1941	2.217	8.226	201.9	167.2	8.451	1.643	0.680	1.596	1.112	147.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	0.5660	0.5663	-0.0006	0.5668	0.5643	30,575	139,150
Sep	0.5679	0.5681	-0.0007	0.5691	0.5671	240	3,882
Dec	-	0.5718	-0.0006	0.5735	0.5705	5	150

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	0.6828	0.6785	-0.0038	0.6828	0.6769	22,012	59,063
Sep	0.6866	0.6855	-0.0038	0.6866	0.6838	44	1,346
Dec	-	0.6921	-0.0038	-	0.6915	7	52

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	0.7544	0.7566	+0.0022	0.7597	0.7530	13,509	87,064
Sep	0.7685	0.7666	+0.0023	0.7690	0.7660	189	2,302
Dec	-	0.7768	+0.0024	0.7778	-	4	244

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	1.6458	1.6338	-0.0122	1.6460	1.6308	21,799	36,393
Sep	1.6320	1.6276	-0.0122	1.6340	1.6260	146	805
Dec	1.6210	1.6220	-0.0122	1.6250	1.6200	2	57

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS May	Jun	Jul	PUTS May	Jun	Jul
1.640	0.47	1.21	1.71	0.85	1.66	2.51
1.650	0.17	0.83	1.31	1.55	2.42	3.03
1.660	0.08	0.54	0.97	2.40	3.00	-

Previous day's vol., Calls 370 Puts 127 . Prev. day's open int., Calls 15,197 Puts 15,312

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS May	Jun	Jul	PUTS May	Jun	Jul
0.560	0.59	0.85	1.20	0.12	0.40	0.58
0.565	0.28	0.65	0.93	0.30	0.60	0.80
0.570	0.13	0.44	0.70	0.62	0.88	1.02

Previous day's vol., Calls 536 Puts 549 . Prev. day's open int., Calls 13,214 Puts 18,889

BENCHMARK GOVERNMENT BONDS

May 8	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.6378	4.99	+0.01	-0.02	+0.09	-1.49
	10/07	10.000	130.9236	5.67	-	-0.03	+0.13	-2.12
Austria	09/99	7.000	103.6698	4.13	-0.05	-0.02	-0.01	+0.25
	07/07	5.625	104.1183	5.05	-0.04	+0.05	+0.12	-0.70
Belgium	01/00	4.000	99.6500	4.21	-0.05	+0.02	+0.08	+0.54
	03/07	6.250	108.2800	5.07	-0.02	+0.07	+0.14	-0.79
Canada	09/99	4.750	99.4900	5.15	-	+0.10	+0.31	+0.36
	06/07	7.250	113.1000	5.36	-	+0.05	+0.15	-1.25
Denmark	12/99	6.000	101.6700	4.85	+0.02	+0.38	+0.45	+0.82
	11/07	7.000	112.2600	5.32	-0.01	+0.13	+0.28	-1.09
Finland	01/99	11.000	104.6084	3.83	-0.07	+0.06	+0.09	+0.13
	04/06	7.250	114.4280	5.00	-0.03	+0.06	+0.16	-1.13
France	01/00	4.000	98.7929	4.12	-0.03	-0.03	+0.01	+0.38
	10/04	6.750	110.9700	4.73	-0.04	-0.04	+0.08	-0.48
	10/07	5.500	103.8700	5.00	-0.03	-0.01	+0.13	-0.87
	10/25	6.000	106.4000	5.54	-0.02	+0.01	+0.15	-1.03
Germany	09/99	4.000	100.0200	3.97	-0.05	-0.02	-0.02	+0.41
	11/04	7.500	114.7600	4.79	-0.04	+0.08	+0.10	-0.49
	07/07	6.000	107.2200	4.99	-0.03	+0.08	+0.13	-0.77
	07/27	6.500	113.8900	5.54	-0.02	+0.08	+0.15	-1.00
Ireland	04/99	6.250	101.0600	4.97	-0.06	-0.04	+0.06	-1.07
	08/06	8.000	118.5700	5.18	-0.02	+0.07	+0.18	-1.50
Italy	05/00	6.000	102.7500	4.55	-0.03	-	+0.02	-2.11
	05/02	6.250	105.3900	4.75	-0.04	-0.08	+0.03	-2.18
	07/07	6.750	111.5000	5.15	-0.02	-0.02	+0.11	-2.27
	11/26	7.250	122.4900	5.65	-0.03	-0.03	+0.11	-2.27
Japan	03/00	6.400	111.0400	0.40	-0.04	-0.10	-0.22	-0.57
	12/02	4.800	117.4900	0.91	-0.04	-0.13	-0.33	-1.02
	09/05	3.000	111.2200	1.39	-0.03	-0.11	-0.33	-1.12
	09/17	3.000	111.8400	2.24	-0.02	-0.11	-0.33	-0.93
Netherlands	11/99	7.500	104.8100	4.11	-0.08	+0.02	-	+0.41
	02/07	5.750	105.4200	4.97	-0.03	+0.07	+0.13	-0.67
New Zealand	02/00	6.500	98.1058	7.67	-0.06	-0.02	-0.35	+0.22
	11/06	8.000	107.6558	6.78	+0.01	+0.01	-0.18	-0.94
Norway	01/99	9.000	103.0175	4.66	+0.03	+0.13	+0.23	+0.60
	01/07	6.750	108.8100	5.44	-	+0.04	+0.23	-0.55
Portugal	03/99	8.500	103.5410	4.19	-0.03	-0.05	-	-1.32
	02/07	6.625	110.4700	5.11	-0.03	-	+0.14	-1.48
Spain	07/99	7.400	103.7500	4.15	-0.06	-0.03	-0.05	-1.13
	03/07	7.350	115.7000	5.10	-0.02	-0.01	+0.12	-1.58
Sweden	01/99	11.000	104.1060	4.89	-0.03	-	+0.02	-0.16
	08/07	8.000	119.7210	5.26	-0.03	-	+0.08	-1.78
Switzerland	03/00	5.000	105.5200	1.90	+0.02	-0.01	-0.01	+0.15
	06/07	4.500	111.2800	3.08	-0.02	-0.03	+0.13	-0.49
UK	08/99	6.000	99.2422	6.63	-	+0.10	+0.06	-0.07
	11/04	6.750	104.3760	5.93	-0.03	+0.11	+0.07	-1.06
	12/07	7.250	110.0313	5.86	-0.03	+0.12	+0.08	-1.18
	06/21	8.000	127.8800	5.78	-0.03	+0.10	+0.06	-1.31
US	10/99	5.625	100.0310	5.60	+0.04	+0.02	+0.06	-0.71
	11/04	7.875	111.3750	5.76	+0.03	+0.04	+0.13	-0.84
	08/07	6.125	102.5310	5.77	+0.04	+0.04	+0.12	-0.96
	08/27	6.375	105.0000	6.01	+0.02	+0.03	+0.09	-0.92
ECU	01/00	4.000	99.6500	4.21	-0.09	-0.06	+0.09	-0.06
	04/07	5.500	103.1900	5.05	-0.01	-	+0.13	-1.10

London closing. *New York closing. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

UK INTEREST RATES

LONDON MONEY RATES

May 8	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	8 - 3	7¾ - 7½	7⅞ - 7¾	7⅝ - 7½	7⅝ - 7½	7⅝ - 7½
Sterling CDs	-	-	7⅞ - 7¾	7⅝ - 7½	7⅝ - 7½	7⅞ - 7¾
Treasury Bills	-	-	7¼ - 7⅛	7¼ - 7⅛	-	-
Bank Bills	-	-	7¼ - 7½	7½ - 7⅛	7½ - 7⅛	-
Local authority deps.	7¼ - 7	7¼ - 7⅛	7½ - 7⅛	7¾ - 7½	7⅞ - 7⅝	7⅞ - 7½
Discount Market deps	7½ - 7¼	7¼ - 7½	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc.
Ave. tender rate of discount on May 8, 6.9360pc. ECGD fixed rate Stlg. Export Finance. Make up day Apr 30, 1998. Agreed rate for period May 26, 1998 to Jun 25, 1998, Scheme III 8.78pc. Reference rate for period Apr 1, 1998 to Apr 30, 1998, Schemes IV & V 7.527pc. Finance House Base Rate 8pc from May 1, 1998.

BANK OF ENGLAND TREASURY BILL TENDER

	May 8	May 1		May 8	May 1
Bills on offer	£100m	£100m	Top accepted rate	6.9390%	6.9390%
Total of applications	£590m	£588m	Ave. rate of discount	6.9360%	6.9342%
Total allocated	£100m	£100m	Average yield	7.0580%	7.0562%
Min. accepted bid	£98.270	£98.270	Offer at next tender	£100m	£100m
Allotment at min. level	100%	45%	Min. accept. bid 28 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Bank	7.25
Banco Bilbao Vizcaya	7.25	*●Guinness Mahon*	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25	* In administration	
Citibank NA	7.25	●*Leopold Joseph & Sons*	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	*Royal Bk of Scotland*	7.25		
		Scottish Widows Bank	7.25		

WORLD INTEREST RATES

MONEY RATES

May 8	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅝	3¾	3¾	3⅞	4⅛	6.00	2.75	-
weekago	4⅛	3⅞	3⅞	3⅞	3⅞	6.00	2.75	-
France	3⅝	3⅝	3⅝	3⅝	3⅝	4.60	-	3.30
weekago	3⅝	3⅝	3⅝	3⅝	3⅝	4.60	-	3.30
Germany	3⅓	3⅝	3⅝	3⅝	3⅞	4.50	2.50	3.30
weekago	3⅝	3⅝	3⅝	3⅝	3⅞	4.50	2.50	3.30
Ireland	5⅝	6⅛	6⅛	5⅝	5⅜	-	-	6.75
weekago	5⅝	6⅛	6⅛	5⅝	5⅜	-	-	6.75
Italy	5⅝	5½	5	4⅞	4⅞	6.50	5.00	5.63
weekago	5⅝	5⅝	4⅞	4⅞	4⅞	6.50	5.00	5.63
Netherlands	3⅝	3⅝	3¾	3¾	3⅞	-	2.75	3.30
weekago	3⅝	3⅝	3⅝	3⅝	3⅞	-	2.75	3.30
Switzerland	1½	1½	1½	1⅝	1⅝	-	1.00	-
weekago	1⅝	1⅝	1⅝	1⅝	1⅝	-	1.00	-
US	5⅝	5⅝	5⅝	5⅝	5⅝	-	5.00	-
weekago	5½	5⅝	5⅝	5⅝	5⅝	-	5.00	-
Japan	½	½	½	½	½	-	0.50	-
weekago	½	½	½	½	½	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	5⅝	5⅝	5¾	5⅞	-	-	-
weekago	-	5⅝	5⅝	5⅝	5⅞	-	-	-
US Dollar CDs	-	5.42	5.45	5.48	5.58	-	-	-
weekago	-	5.42	5.45	5.48	5.58	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4⅛	-	-	-
weekago	-	4⅛	4⅛	4⅛	4⅛	-	-	-
SDR Linked Ds	-	3¾	3¾	3⅞	3⅞	-	-	-
weekago	-	3¾	3¾	3⅞	3⅞	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 8	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4 - 3¾	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	3¾ - 3⅞	4⅛ - 3⅞
Danish Krone	5⅛ - 4⅞	4⅞ - 4⅛	4⅞ - 4⅞	4⅛ - 4⅛	4⅛ - 4⅛	4⅛ - 4⅛
German Mark	3½ - 3⅛	3⅝ - 3⅛	3⅝ - 3⅝	3⅝ - 3⅝	3⅝ - 3⅝	3⅞ - 3⅞
Dutch Guilder	3⅝ - 3⅝	3⅝ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	4 - 3⅞
French Franc	3⅝ - 3⅝	3⅝ - 3⅝	3⅝ - 3⅝	3⅝ - 3⅝	3⅝ - 3⅝	4⅛ - 4⅛
Portuguese Esc.	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝
Spanish Peseta	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝
Sterling	7⅝ - 7⅝	7⅝ - 7⅝	7⅝ - 7⅝	7⅝ - 7⅝	7⅝ - 7⅝	7⅝ - 7⅝
Swiss Franc	1⅝ - 1⅝	1⅝ - 1⅝	1⅝ - 1⅝	1⅝ - 1⅝	1⅝ - 1⅝	1⅝ - 1⅝
Canadian Dollar	4⅝ - 4⅝	4⅞ - 4⅞	4⅞ - 4⅞	5 - 4⅞	5⅛ - 4⅞	5⅛ - 5⅛
US Dollar	5⅝ - 5⅝	5⅝ - 5⅝	5⅝ - 5⅝	5⅝ - 5⅝	5⅝ - 5⅝	5⅞ - 5⅞
Italian Lira	5⅝ - 5⅝	5⅝ - 5⅝	5⅝ - 5⅝	5⅛ - 4⅞	4⅞ - 4⅞	5⅛ - 4⅞
Japanese Yen	½ - ¼	½ - ¼	½ - ¼	½ - ¼	½ - ¼	½ - ¼
Asian $Sing	4⅝ - 4⅝	5⅛ - 4⅞	5⅛ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.30	94.28	-0.01	94.29	94.26	65,170	449,122
Sep	94.27	94.23	-0.04	94.29	94.21	80,380	437,444
Dec	94.19	94.16	-0.03	94.19	94.12	83,120	358,519

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.98	94.96	-0.02	94.99	94.96	147	2,555
Sep	94.93	94.94	-0.04	94.97	94.93	515	985
Dec	-	95.02	-	-	95.02	13	31

All Open interest figs. are for previous day

■ POUND IN NEW YORK

May 8	-Close-	-Prev. close-
£ spot	1.6365	1.6485
1 mth	1.6340	1.6480
3 mth	1.6294	1.6415
1 yr	1.6138	1.6255

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Companies and Finance page in today's edition.

■ OTHER CURRENCIES

May 8	£	$
Czech Rp	53.2420 - 53.3253	32.5440 - 32.5750
Hungary	342.349 - 342.641	209.260 - 209.310
Iran	4911.00 - 4908.00	3000.00 - 3000.00
Kuwait	0.4993 - 0.4998	0.3052 - 0.3053
Peru	4.6446 - 4.6524	2.8390 - 2.8420
Poland	5.5133 - 5.5232	3.3700 - 3.3740
Russia	10.0180 - 10.0258	6.1235 - 6.1245
U.A.E.	6.0085 - 6.0129	3.6727 - 3.6731

BANK RETURN

The Bank Return table can be found on page 29 in today's edition.

UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)							
Treas 15½pc '98‡‡		103¼	-2	935	Mr30 Se30	23.3	1308
Exch 12pc 1998		102⅛	-1	3,909	My20 Nv20	9.5	1259
Treas 9½pc 1999‡‡		101½	-1	1,900	Jy15 Ja15	12.1	1347
Treas Flg Rate 1999‡‡		100⅛	---	5,700	Mr Je Se De	2.3	4845
Exch 12¼pc 1999		104½	-1	3,050	Se26 Mr26	23.3	1264
Treas 10½pc 1999		103¾	-2	1,252	Nv19 My19	8.5	1288
Treas 6pc 1999 ‡‡		99¼	-1	6,950	Fe10 Au10	2.2	3635
Conv 10¼pc 1999		105⅛	-2	1,798	My22 Nv22	13.5	1242
Treas 8½pc 2000	☆	103⅛	-2	109	Jy28 Ja28	26.1	-
Conv 9pc 2000‡‡		104⅛	-2	5,358	Se3 Mr3	23.2	1244
Treas 13pc 2000		112½	-3	3,171	Ja14 Jy14	5.1	1239
Treas 14pc 1998-1		100⅛	-1	970	Nv22 My22	13.5	1306
Treas 8pc 2000‡‡		103½	-3	9,800	Je7 De7	29.5	4048
Treas Flg Rate 2001		100½	---	3,000	6De Ja Ap Jy	7.7	-
Treas 10pc 2001		109⅛	-3	4,406	Au26 Fe26	23.2	1280
Conv 9¾pc 2001‡‡	☆	108⅛	-3	3	Ja12 Jy12	5.1	-
Conv 9¾pc 2001	☆	109½	-2	35	Fe10 Au10	2.2	-
Treas 7pc 2001 ‡‡		102⅛xd	-4	12,750	My6 Nv6	27.4	3031
Exch 12pc 1999-2	☆	103½	-1	105	Jy22 Ja22	19.1	-
Conv 10pc 2002	☆	113⅛	-5	21	Oc11 Ap11	6.4	-
Treas 7pc 2002‡‡		103¼	-5	9,000	De7 Je7	29.5	-
Five to Fifteen Years							
Conv 9½pc 2002	☆	111⅞	-5	2	De14 Je14	5.6	-
Treas 9¾pc 2002		113½	-5	6,527	Fe27 Au27	33.2	1349
Exch 9pc 2002	☆	111⅛	-5	83	My19 Nv19	8.5	-
Conv 9¾pc 2003‡‡	☆	115⅛xd	-5	11	Nv7 My7	27.4	-
Treas 8pc 2003‡‡		108½	-5	8,609	Je10 De10	30.5	2010
Treas 6½pc 2003		102½	-5	2,000	Ja7 De7	-	-
Treas 13¾pc 2000-3	☆	114½	-3	53	Ja25 Jy25	19.1	-
Treas 10pc 2003		117⅞	-6	2,503	Mr8 Se8	2.1	1281
Treas 11½pc 2001-4		113	-4	1,630	Se19 Mr19	16.3	1290
Treas 10pc 2004	☆	119⅝	-6	23	Nv18 My18	8.5	-
Funding 3½pc 1999-4		92½	-4	543	Ja14 Jy14	5.1	1274
Conv 9½pc 2004		118⅝	-6	3,412	Ap25 Oc25	17.4	1246
Treas 6¾pc 2004‡‡		104½	-6	6,500	My26 Nv26	15.5	3541
Conv 9½pc 2005		119½	-6	4,842	Oc18 Ap18	14.4	1247
Exch 10½pc 2005	☆	126⅛	-6	23	Mr20 Se20	18.3	-
Treas 12½pc 2003-5		129½	-6	2,600	My21 Nv21	12.5	1295
Treas 8½pc 2005‡‡		115½	-7	10,373	Je7 De7	29.5	4946
Conv 9¾pc 2006	☆	125½	-7	6	My15 Nv15	5'97	-
Treas 7½pc 2006‡‡		110½	-7	11,700	Je7 De7	29.5	1148
Treas 7¾pc 2006‡‡		111⅝	-7	4,000	Mr8 Se8	2.3	2300
Treas 8pc 2002-6‡‡		106½	-5	2,050	Ap5 Oc5	30.3	1334
Treas 11¾pc 2003-7		122⅛	-5	3,150	Jy22 Ja22	13.1	1293
Treas 8½pc 2007 ‡‡		118¼	-8	7,397	Ja16 Jy16	12.1	1339
Treas 7¼pc 2007‡‡		110⅛	-8	11,000	Je7 De7	39.5	-
Treas 13½pc 2004-8	☆	135½	-5	95	Se26 Mr26	23.3	-
Treas 9pc 2008 ‡‡		124⅛	-8	5,621	Ap13 Oc13	1.4	1343
Treas 8pc 2009		117½	-8	3,450	Mr25 Se25	16.3	1336
Treas 6¼pc 2010‡‡		103⅞	-9	4,750	My25 Nv25	15.5	4632
Conv 9pc Ln 2011 ‡‡		128½	-9	5,273	Jy12 Ja12	5.1	1245
Treas 9pc 2012‡‡		129⅛	-9	5,360	Fe6 Au6	26.1	1701
Treas 5½pc 2008-12‡‡		97½	-1.0	1,000	Mr10 Se10	2.3	1330
Treas 7¾pc 2012-15‡‡		117⅛	-8	800	Jy26 Ja26	15.1	1332
Over Fifteen Years							
Treas 8pc 2013‡‡		121⅛	-9	6,100	Mr27 Se27	23.3	2229
Treas 8pc 2015‡‡		123⅞	-1.0	13,787	Je7 De7	29.5	4892
Treas 8¾pc 2017‡‡		133½	-1.0	7,550	Fe25 Au25	18.2	1682
Exch 12pc 2013-17	☆	162⅛	-7	57	Je12 De12	3.6	-
Treas 8pc 2021‡‡		127⅞	-1.1	16,500	Je7 De7	29.5	-
Treas 6pc 2028		104½	-1.4	2,000	De7 Je7	-	-
Undated							
Consols 4pc		64⅛	-2.4	359	Au1 Fe1	26.1	1239
War Loan 3½pc‡‡		59¼	-1.3	1,909	Je1 De1	16.5	1352
Conv 3½pc '61 Aft.		78¼	-1.0	115	Ap1 Oc1	23.3	1243
Treas 3pc '66 Aft.		47⅛	-1.2	56	Ap5 Oc5	30.3	1324
Consols 2½pc		42⅛	-1.4	276	5Ja Ap Jy Oc	30.1	1238
Treas. 2½pc		41⅛	-1.6	475	Ap1 Oc1	23.3	1315
Index-Linked (b)							
2½pc '99	☆	191½	-1	2	My22 Nv22	13.5	-
2½pc '01	(78.3)	198⅛	---	2,150	Mr24 Se24	16.3	1316
2½pc '03	(78.8)	195½	-.1	2,700	My20 Nv20	9.5	1317
4⅜pc '04‡‡	(135.6)	126⅝	-1	1,150	Ap21 Oc21	14.4	1255
2pc '06	(69.5)	212⅛	-.1	2,500	Ja19 Jy19	12.1	1314
2½pc '09	(78.8)	182½	-2	2,625	My20 Nv20	9.5	1318
2½pc '11	(74.6)	202⅛	-2	3,100	Fe23 Au23	16.2	1319
2½pc '13	(89.2)	169½	-2	3,750	Fe16 Au16	9.2	1320
2½pc '16	(81.6)	183½	-2	3,975	Ja26 Jy26	19.1	1321
2½pc '20	(83.0)	179⅛	-2	3,800	Ap16 Oc16	6.4	1322
2½pc '24‡‡	(97.7)	151½	-2	3,850	Ja17 Jy17	12.1	1323
4⅛pc '30‡‡	(135.1)	149½	-2	1,300	Ja16 Jy22	19.1	1134

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for August 1997: 158.5 and for March 1998: 160.8.

Other Fixed Interest

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Asian Dev 10⅛pc 2009		130½	-.6	100	Mr24 Se24	3'97	-
B'ham 11½pc 2012		146½xd	---	45	My15 Nv15	20.4	1837
Leeds 13½pc 2006		143½	---	40	Ap1 Oc1	16.3	3146
Liverpool 3½pc Irred.		55	---	5	1Ap Jy Oc Ja	9.3	-
LCC 3pc '20 Aft.		47xd	---	28	1Mr Je Se De	5.5	-
Manchester 11½pc 2007		134½	---	6	Ap25 Oc25	30.3	3275
Met. Wtr. 3pc 'B'		88	---	25	Mr1 Se1	2.2	3361
N'wide Anglia 3⅝pc IL 2021		173¼	0.8	60	-	-	-
4⅛pc IL 2024		165⅛	0.4	50	Au23 Fe23	2.2	-

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis. ☆ Indicative price.

EQUITIES

Europe focuses on interest rates

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

Interest rate trends on both sides of the Atlantic are likely to preoccupy European equity markets this week, with the Bundesbank central council meeting on Thursday and the US Federal Reserve's policy making committee due to meet on May 19.

This Friday's Group of Eight summit meeting in the UK will also be a focus of currency market attention, amid efforts to inject more momentum into the Japanese economy.

Trans-European equity indices ended last week on a modest up-note, with the FTSE Eurotop 300 index closing on Friday at 1,216.91, up 9.15 on the day, but a drop of 4.15 on the week.

The Eurotop 100 index closed at 2,794.16, up 20.87 on the day, and a rise of 15.19 on the week.

European bonds closed mostly higher on Friday in spite of edginess in the US treasury market over employment figures, with the 10-year German benchmark ending around 102.02, up 0.21 from the previous session, to yield 4.98.

The market appeared to be shrugging off the EU row over the appointment of the president of the European Central Bank, and was helped by reassuring noises from several ECB board nominees over the institution's independence.

German interest rates are widely expected to rise in the next few months, converging with the European average ahead of monetary union on January 1. But analysts doubt a move is likely at this week's Bundesbank meeting. However, speculation ahead of the meeting, and the bank's annual press conference, could keep the markets on edge.

European sectors likely to be the focus of market attention this week include telecommunications.

On Wednesday, Telefónica of Spain will report first-quarter earnings, and analysts are expecting a rise of 15 to 20 per cent in net profits, driven by basic Spanish telephony operations. Telefónica shares soared on Friday, rising Ecu 1.3 to Ecu 38.54 following the closure of its rights issue.

Wednesday will also bring full-year results from Cable & Wireless of the UK. It is expected to report a modest rise in full-year pre-tax profits, though the figures are likely to be flattered by a large exceptional gain.

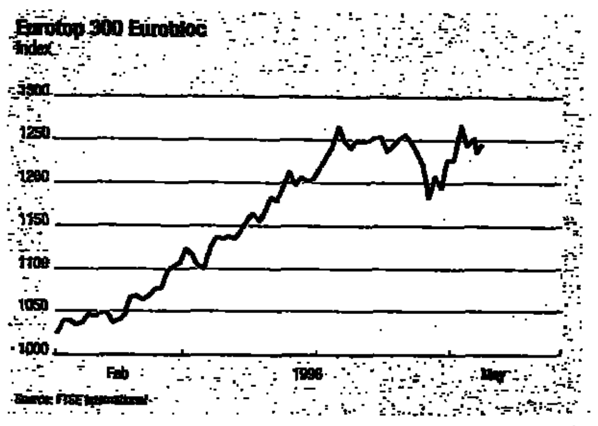
Analysts will also be looking for more details of its proposed alliance with Telecom Italia.

Automobile stocks could prove volatile following the proposed merger between Daimler-Benz and Chrysler and the takeover battle between Volkswagen and BMW for Rolls-Royce Motor Cars. Automobiles were the best performing Eurotop sector last week, with a rise of 6.5 per cent, followed by construction with a 6.4 per cent increase.

The poorest performers on the week included property, healthcare, water and gas distribution.

A further drop in sterling, which dipped against the dollar at the end of last week, following its earlier fall against the D-Mark, could give further impetus this week to UK exporting stocks.

Eurotop 300 Eurobloc Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

May 08 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total return (Ecu)
FTSE Eurotop 300	1216.91	+0.76	+9.15	1.93	8.69	1236.45
FTSE Eurotop 100	2794.16	+0.75	+20.87	2.01	4.32	988.53
FTSE Ebloc 100	1001.99	+1.22	+12.11	1.60	1.12	1003.11
FTSE Eurotop 300 Regions						
Eurobloc	1240.50	+1.26	+15.53	1.58	4.27	1258.79
UK	1142.71	+0.30	+3.40	2.79	16.71	1178.90
Europe Ex-Eurobloc	1193.69	+0.28	+3.31	2.28	13.74	1220.35
Europe Ex-UK	1259.63	+1.00	+12.44	1.50	5.69	1268.97
FTSE Eurotop Industry Sectors						
RESOURCES	1030.27	+0.51	+5.27	2.69	7.15	1052.30
Extractive Industries	989.52	+0.79	-7.80	2.61	0.00	989.52
Oil, Integrated	987.16	+0.53	+5.20	2.69	0.00	987.16
Oil, Exploration & Prod	983.88	-0.87	-8.41	2.51	0.00	983.88
GENERAL INDUSTRIES	1193.49	+0.55	+6.49	1.79	8.87	1205.88
Construction	1064.74	+0.55	+5.82	2.88	0.00	1064.74
Building Matls & Merchs	1029.17	+0.51	+5.27	2.58	0.00	1029.17
Chemicals	989.42	-0.82	-8.03	2.17	7.39	997.30
Diversified Industrials	1009.73	+0.90	+9.03	2.09	0.00	1009.73
Electronic & Elect Equip	1022.05	-0.27	-2.74	1.62	0.00	1022.05
Engineering	1012.88	+1.76	+17.48	2.01	0.00	1012.88
Paper, Pckg & Printing	1025.23	+1.08	+10.79	2.31	0.00	1025.23
CONSUMER GOODS	1149.48	+0.74	+8.49	1.50	9.80	1171.70
Automobiles	1065.39	+0.06	+0.60	0.86	0.00	1065.39
Alcoholic Beverages	983.03	+0.54	+5.30	2.35	0.00	983.03
Food Producers	991.48	+1.21	+11.82	1.57	2.05	993.50
Household Goods & Texts	996.46	+0.86	+8.56	1.24	0.72	997.16
Healthcare	955.20	-0.60	-5.72	2.40	0.00	955.20
Pharmaceuticals	998.99	+0.58	+5.76	1.33	1.03	1000.03
Tobacco	992.44	-0.40	-3.95	4.27	0.00	992.44
SERVICES	1146.48	+0.59	+6.66	1.91	7.25	1161.88
Distribution	1015.60	+1.38	+13.83	0.97	2.76	1018.34
Leisure & Hotels	990.41	+0.16	+1.58	2.44	0.00	990.41
Media	997.36	+0.97	+9.62	2.30	0.00	997.36
Retailers, Food	978.49	-0.22	-2.18	2.07	0.00	978.49
Retailers, General	977.46	+0.29	+2.86	2.29	0.00	977.46
Telecommunications	993.11	+0.90	+8.86	1.60	0.00	993.11
Breweries, Pubs & Rests	950.43	-1.19	-11.40	2.82	0.00	950.43
Support Services	984.25	+0.79	+7.71	1.31	0.00	984.25
Transport	983.31	+0.58	+5.81	2.23	0.28	983.60
Information Technology	997.83	+1.52	+14.92	0.41	2.28	1000.10
UTILITIES	1272.24	-0.31	-4.00	3.49	23.71	1311.30
Electricity	973.46	-0.20	-1.92	3.52	0.00	973.46
Gas Distribution	986.95	-0.45	-4.49	1.69	63.72	1054.92
Water	946.58	-0.76	-7.26	3.31	0.00	946.58
FINANCIALS	1361.53	+1.20	+16.20	1.83	11.45	1381.36
Banks, Retail	998.28	+1.18	+11.47	2.07	2.16	1000.42
Insurance	989.86	+1.50	+14.63	1.28	0.00	989.86
Life Insurance	982.29	+1.60	+15.50	1.52	0.00	982.29
Other Financial	995.34	+0.60	+5.91	1.89	0.00	995.34
Investment Companies	985.09	-0.29	-2.76	2.26	0.00	985.09
Property	941.91	-2.14	-20.60	2.81	0.00	941.91

FT THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
May		95.740	-			0	0
Jun	95.750	95.740	-	95.750	95.740	80	12790
Jul		95.740	-			0	0
Sep	95.775	95.770	+0.010	95.780	95.775	26	17325

OTHER INDICES

	May 8	May 7	May 6	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	(u)	3234.62	3295.73	3306.00	2574.51	3306	2976.42
DJ Euro Stx 50	(u)	3216.09	3262.55	3345.86	2466.81	3345.86	2865.52
MSCI Europe	1213.16*	1205.28	1217.84	1240.82	980.50	1240.82	510.75

Source: Datastream/part of FT Information. *Subject to revision next day. (u) unavailable.

CURRENCIES & MONEY

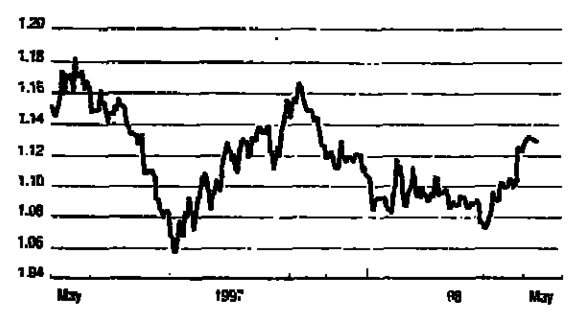
FT SYNTHETIC EURO RATES

May 08	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.063767	-0.0022	-0.02	-0.0047	-0.03
Belgium	BEF	41.233739	+0.0069	0.02	-0.0248	-0.06
Czech Republic	CZK	36.792270	-0.0394	-0.11	+0.0465	0.13
Denmark	DKK	7.615888	-0.0049	-0.06	-0.0100	-0.13
Finland	FIM	6.074886	+0.0023	0.04	+0.0091	0.13
France	FRF	6.703165	+0.0013	0.02	+0.0065	0.10
Germany	DEM	1.998746	-0.0003	-0.01	-0.0006	-0.03
Greece	GRD	348.187227	-1.1005	-0.32	-0.1733	-0.05
Hungary	HUF	236.492272	-0.3160	-0.13	+0.9164	0.39
Ireland	IEP	0.795747	-0.0012	-0.15	+0.0016	0.21
Italy	ITL	1971.450700	-0.3834	-0.02	-1.9728	-0.10
Luxembourg	LUF	41.233739	+0.0069	0.02	-0.0248	-0.06
Netherlands	NLG	2.252318	+0.0002	0.01	+0.0010	0.04
Norway	NOK	8.357375	+0.0025	0.03	+0.0469	0.56
Poland	PLN	3.810364	-0.0207	-0.54	-0.0062	-0.16
Portugal	PTE	205.095192	+0.3665	0.18	+0.2129	0.10
Romania	ROL	9627.609034	+45.1179	0.47	+278.5133	2.98
Russia	RUB	6.920126	-0.0219	-0.32	+0.0280	0.41
Slovakia	SKK	38.546598	-0.0554	-0.14	-0.0229	-0.06
Spain	ESP	169.610909	+0.0234	0.01	+0.0327	0.02
Sweden	SEK	8.585861	-0.0129	-0.15	-0.0513	-0.59
Switzerland	CHF	1.669351	+0.0043	0.26	-0.0067	-0.40
United Kingdom	GBP	0.690544	+0.0019	0.28	+0.0161	2.39
ECU	ECU	1.015984	+0.0008	0.08	+0.0035	0.35
Americas						
Brazil	BRL	1.299738	-0.0036	-0.28	+0.0087	0.68
Canada	CAD	1.621213	-0.0107	-0.66	+0.0129	0.80
Mexico	MXN	9.581279	-0.0516	-0.54	+0.0350	0.37
United States	USD	1.130001	-0.0034	-0.30	+0.0063	0.56
Pacific/Middle East/Africa						
Australia	AUD	1.773537	-0.0087	-0.49	+0.0515	2.99
Hong Kong	HKD	8.756943	-0.0260	-0.30	+0.0500	0.57
Japan	JPY	149.877891	-0.8978	-0.60	+0.3708	0.25
Singapore	SGD	1.826342	-0.0139	-0.76	+0.0490	2.75
South Africa	ZAR	5.720630	-0.0204	-0.35	+0.0449	0.79

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends.

Synthetic Euro against the dollar

$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

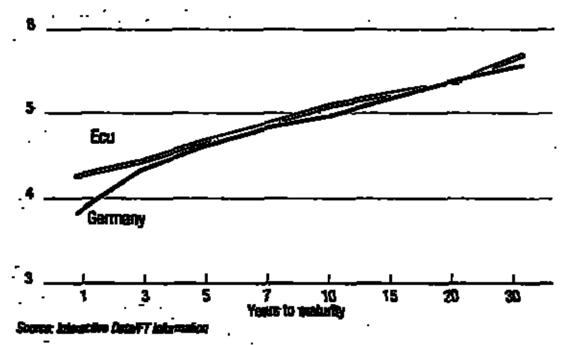
May 08	Fixed rate	Market rate	Diff fwd v/mb %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0363	0.01	0.01	7.038	3.86	0.04
Belgium	20.6255	20.6258	0.00	0.05	20.6353	3.83	0.04
France	3.35386	3.3537	0.00	-0.13	3.3538	3.84	0.00
Finland	3.04001	3.0283	-0.62	-0.19	3.0415	3.95	0.11
Ireland	0.402676	0.3981	-1.14	-1.36	0.4024	5.53	1.69
Italy	990.002	986.5430	-0.37	-0.36	991.4441	4.65	0.81
Luxembourg	20.6255	20.6258	0.00	0.05	20.6353	3.83	0.04
Netherlands	1.12674	1.1269	0.01	-0.07	1.1268	3.83	-0.01
Portugal	102.505	102.6110	0.1	-0.03	102.8285	4.17	0.33
Spain	85.0722	84.9587	-0.13	-0.18	85.172	4.23	0.39
Germany	1					3.84	

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates. Diff at rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve

Per cent (May 8 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

May 08	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	AA	104.810	5.12	-0.02	0.13	0.03
France (Rep of)	04/08	5.250	AAA	101.679	5.03	-0.04	0.12	-0.06
Italy (Rep of)	05/08	5.000	AA	98.750	5.16	-0.02	0.08	0.07
Portugal (Rep of)	05/08	5.375	AA-	101.890	5.13	-0.05	0.11	0.04
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	100.160	4.83	-0.03	0.31	0.15
Gen Electric Cap Crp	10/04	5.500	AAA	102.640	4.97	-0.03	0.19	0.17
Oest Kontrollbank	04/08	5.250	AAA	100.480	5.19	-0.02	0.12	0.10
Cred Local de France	04/08	5.250	AA+	99.080	5.37	-0.02	0.15	0.28
Ecu Issues								
Bayer Hypo & Wech Bk	07/01	5.000	A+	101.530	4.46	-0.08	0.03	0.03
Cred Foncier France	03/04	8.375	A	114.680	5.38	-0.03	0.09	0.38
Euro Inv Bank	04/04	5.250	AAA	102.580	4.74	-0.04	0.11	-0.06
ABN Amro Hldg NV	04/07	6.375	AA-	106.480	5.44	-0.03	0.10	0.39

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Euro "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

May 08	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.10	-0.01	0.05	0.00	0.04	-0.05
Belgium	-0.09	0.02	0.08	0.03	0.07	-0.04
Finland	-0.13	0.06	0.07	-0.01	-0.29	-0.61
France	-0.14	-0.03	-0.07	-0.06	-0.01	-0.13
Germany	-0.18	-0.08	-0.04	-0.12	0.02	-0.13
Ireland	0.52	0.16	0.10	0.09	0.13	0.12
Italy	0.25	0.22	0.16	0.14	0.21	0.05
Luxembourg	-0.09	0.02	0.06	0.03	0.07	-0.04
Netherlands	-0.09	-0.03	-0.03	-0.08	0.05	-0.12
Portugal	0.01	0.13	0.06	0.05	0.38	0.32
Spain	-0.04	0.04	0.11	0.06	0.23	0.26
"Outs"						
Denmark	0.56	0.40	0.32	0.25	0.22	0.14
Greece	5.50	4.20	3.41	2.78	2.50	2.18
Sweden	0.20	0.37	0.29	0.20	0.19	-0.13
UK	2.12	1.29	1.08	0.75	0.47	0.01

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

May 08	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KfW	AAA	01/09	5.000	DEM	0.00	-0.04	0.05
France Telecom	AA+	11/05	6.250	FRF	0.20	0.39	0.30
Halifax	AA	07/07	5.625	DEM	0.18	0.23	0.30
Ing Bank NV	AA-	01/08	5.500	NLG	0.19	0.13	0.27
Bayer Hypo W Bk	A+	03/02	6.750	ITL	0.33	0.69	0.79
Cred Foncier	A	03/03	7.250	DEM	0.34	0.96	0.89
Thomson-Brandt Int	A-	03/04	6.375	FRF	0.35	0.57	0.84
Generale des Eaux	BBB+	03/04	6.250	FRF	0.25	0.50	0.58
Bank of China	BBB	07/99	7.125	DEM	0.89	0.94	0.51
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	0.75	1.23	1.43
Korea Dev Bank	BB+	11/02	5.625	FRF	4.15	4.64	5.45

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AUTOMOBILES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BANKS RETAIL					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BREWERIES, PUBS & RESTAURANTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BUILDING MATERIALS & MERCHANTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CHEMICALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONSTRUCTION					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DISTRIBUTORS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DIVERSIFIED INDUSTRIALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ELECTRICITY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ELECTRONIC & ELECTRICAL EQPT.					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ENGINEERING					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EXTRACTIVE INDUSTRIES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FOOD PRODUCERS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GAS DISTRIBUTION					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HEALTH CARE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HOUSEHOLD GOODS & TEXTILES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INFORMATION TECHNOLOGY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INSURANCE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INVESTMENT COMPANIES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LEISURE & HOTELS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LIFE ASSURANCE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MEDIA					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OIL, EXPLORATION & PRODUCTION					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OIL, INTEGRATED					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER FINANCIAL					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PAPER PACKAGING & PRINTING					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PHARMACEUTICALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PROPERTY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RETAILERS, FOOD					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RETAILERS, GENERAL					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SUPPORT SERVICES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TELECOMMUNICATIONS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOBACCO					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TRANSPORT					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
WATER					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Notes: Price data and market capitalisations supplied by FTSE International. [illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov	Mkt cap£m	Last xd	City line
Allied Domecq	[illegible]	634	0.8	024.73	[illegible]	6,612	24.11	1550
Bulmer (HP)	[illegible]	351½	5.2	14.82	[illegible]	135.6	12.1	2005
Burn Stewart	[illegible]	21½	[illegible]	1.7	–	12.7	27.10	1516
Diageo	[illegible]	731½	[illegible]	019.0	[illegible]	26,107	[illegible]	2791
Glenmorangie A	[illegible]	785	–6	[illegible]	[illegible]	106.9	[illegible]	3257
B	[illegible]	807½	–5	6.71	[illegible]	36.3	[illegible]	[illegible]
Highland	[illegible]	313½	0.2	9.0	[illegible]	418.5	[illegible]	2890
5½pc Cv Sb Bd	[illegible]	96¼		05½%	–	47.4	[illegible]	2823
Kirin Y	[illegible]	909¼	–2.5	[illegible]	–	6,359	[illegible]	1119
Matthew Clark	[illegible]	201½		20.0	1.5	178.3	[illegible]	2153
Merrydown	[illegible]	40½	–10.0	3.1	–	4.41	[illegible]	3352
Seagram C$	[illegible]	525¼	[illegible]	066e	–	8,697	[illegible]	–

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Continued

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Continued

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

[illegible]

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Continued

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
Anglo Am Ind R		£19¾	4.2	0555c	2.7	1,470	26.8	-
Barlow R	♣	25½	-7.1	0124c	2.6	1,168	8.12	-
Gold Flds Prop R		132	1.9	065c	1.2	13.5	1.9	-
SA Breweries R	†	£19¾	-3.6	0295c	-	5,723	1.12	4113
Standard Bank R		£25½	0.9	0434c	-	4,315	25.8	-
Tiger Oats		850	5.0	0154c	2.8	1,458	8.12	-
Tongaat-Hulett R		715	-.1	0142c	2.7	684.1	8.12	-

TRADED INDEX SECURITIES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
FTSE 100 TRAINS		£[illegible]	—	-	-	-	24.11	-

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE Index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS").

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market capitalisations shown are calculated separately for each line of stock quoted.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend, cover based on earnings updated by latest interim statement.
- Unregulated collective investment scheme

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.

z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1998-99. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1999. K Dividend based on prospectus or other official estimates for 1998. L Estimated annualised dividend, cover based on latest annual earnings.

M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). O Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: ex dividend; ex scrip issue; ex rights; ex all; ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Hardys & Hansons (Brws), Gold Fields (Extr), INVESCO Geared Opps, Do Zero Div Prf, Do Ulvgs Cv Ln 2006 (InTr), Advent 2 VCT, Quester VCT 2 (InCo), LLP (Med), Oxford Glycosciences (Phrm), Ottakars (RtGn), Eurotunnel Warrants 01/03 (Trns), Rapid Tech (AIM). Deletions: Pilkington Warrants 1998 (BdMa), Allied Colloids (Chem).

♣ FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Please note that FT Company Focus/Focus Plus reports ceased to be available as from May 4th 1998. However ShareFinder company reports, incorporating current and historic financial information, key performance data and consensus recommendations, may still be purchased by calling 0870 601 4800.

FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls are charged at 50p per minute at all times. An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial information obtained via FT Cityline before making any investment decision. All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request. Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the internet at http://www.FT.com.

FT MANAGED FUNDS SERVICE

OFFSHORE AND OVERSEAS

BERMUDA
(FSA RECOGNISED)

BERMUDA
(REGULATED)(**)

GUERNSEY
(FSA RECOGNISED)

GUERNSEY
(REGULATED)(**)

IRELAND
(FSA RECOGNISED)

IRELAND
(REGULATED)(**)

ISLE OF MAN
(FSA RECOGNISED)

ISLE OF MAN
(REGULATED)(**)

JERSEY
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 436010 and key in a 5 digit code listed below. Calls are charged at 50p per minute at all times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

Bank Von Ernst & Cie AG

Frontrunner I (u)

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mngmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Equity Fund Managers

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 50p per minute at all times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

	Selling Price	Buying Price	Yield Gross	City-Line
Premier Life				
1 Rue Emile Bian, Luxembourg		Tir 2839 Tel 4050751		
Davenport Chetwode £ Fd.	£1.35	1.480	-	45915
Matheson £ Pens	£1.040	1.1	-	45921
Matheson $ Pens	$1.08	1.140	-	45922
Argent Bincd	£15.070	16.140	-	46311
Argent Equity Gth	£15.030	16.090	-	46312
OFS James Capel Mgr Fd £	£2.28	2.90	-	46909
OFS James Capel Mgr Fd $	$2.55	2.58	-	46909
OFS Aggressive $	$1.55	1.58	-	46913
OFS Mntd Growth $	$1.83	1.84	-	46312
OFS Dir Balanced Port	$1.58	1.59	-	46910
CH 10	SFr7.91	2.05	-	47415
LX 10	$2.23	2.39	-	47416
Professional Investment Consultants				
Premier Ltd $	$1.09	1.15	-	49491
Premier Ltd £	£0.580	0.62	-	47957
PCI Worldwide Opps	£1.330	1.430	-	49492
SPILA Flexible Growth	$1.138	1.225	-	51574
Royal & Sun Alliance Intl Financial Services				
Royal Court, Arbory Rd, Castletown IoM			01624 821212	
RSAIFS Pension Gwth A	£2.010	2.162	-	45718
RSAIFS Pension Cash Estate	£4.037		-	45719
RSAIM Managed	£2.871	3.023	-	45720
RSAIFS Gilt	£2.792	3.000	-	45721
RSAIM UK Equity	£2.748	2.963	-	45722
RSAIM European	£3.106	3.340	-	45724
RSAIFS International Gwth	£1.707	1.838	-	45726
VRA Growth	£1.437	1.439	-	45729
S.A.M. 1	$1.430	1.548	-	47847
S.A.M. 2	$1.48	1.554	-	47848
S.A.M. 3	£2.47	2.598	-	47849
S.A.M. 4	£2.047	2.155	-	47850
[illegible]	£1.953	2.101	-	44483
RSAIFS Sterling Money Mkt	£1.704	1.704	-	49503
RSAIFS Dollar Money Mkt	$1.246	1.248	-	49504
RSAIM UK Index Tracker	£2.989	3.193	-	49505
RSAIFS Income Portfolio	£1.250	1.328	-	50240
[illegible]	£1.436	1.360	-	50241
[illegible]	£1.704	1.833	-	50242
RSAIFS Equity	$0.959	1.032	-	50243
[illegible]	$1.581	1.581	-	[illegible]
Veritas Performance Sterling	£9.891	10.636	-	44968
Veritas Performance Dollar	$10.082	10.841	-	44971
Veritas Managed Sterling	£10.482	11.277	-	44974
Veritas Managed Dollar	$10.393	11.178	-	44975
Royal Skandia Life Assurance Ltd (z)				
http://www.royalskandia.com			01624 611611	
£ Cautious Baring Mgd	£1.979	2.074	-	47383
£ Balanced Baring Mgd	£2.207	2.323	-	47384
£ Aggressive Baring Mgd	£2.167	2.330	-	47382
£ Cautious Gartmore Pfgsl	£1.700	1.827	-	44484
£ Balanced Gartmore	£2.003	2.153	-	44485
£ Balanced Fidelity	£2.325	2.499	-	43765
£ Guard Managed	£1.754	1.886	-	43797
£ Balanced INVESCO	£2.549	2.740	-	47728
£ Aggressive Perpetual	£2.605	2.802	-	47729

	Selling Price	Buying Price	Yield Gross	City-Line
Arnhold and S. Bleichroeder, Inc				
[illegible]	$12770.81		-	[illegible]
Global Beverage—Class A	$164.11		-	[illegible]
Asia Pacific Securities Corp Ltd				
[illegible]	$8.95		-	59285
Asian Convertibles & Income Fd (Cayman)				
NAV Apr 30	$11.40		-	44460
Atlantico Investment Ltd				
Atlantico Liber Plus Jan 2	$107.81		-	59025
Atlantic Investment Management, Inc				
AJR International May 6	$293.24		-	-
[illegible]	$190.01		-	-
Atlantis Fund Management (Guernsey) Ltd				
[illegible]				
Atlas Management Limited				
Managed	$10.09	10.50	-	47280
Atlas Real Estate Hedge Fund Limited				
NAV Apr 30	$110.4		-	-
Aurora Funds				
c/o MeesPierson Fund Administration				
[illegible]				
BEA Associates				
[illegible]				
BNP				
[illegible]	$1735.40		-	[illegible]
Julius Baer Bank & Trust Co Ltd				
[illegible]	$2738	2737	-	[illegible]
Baer Global Bond	$12.86		-	[illegible]
Bahia Fund				
[illegible]				
Leveraged Intl Eq Fd Inc Sh	$10.781	75743	-	[illegible]
Banca Belg. S.A. (Principality of Andorra)				
[illegible]				

OTHER OFFSHORE FUNDS

[illegible]

هكذا من الأول

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 8 / Sch)

BELGIUM/LUXEMBOURG (May 8 / Frs.)

CZECH REP (May 7 / Koruna)

DENMARK (May 7 / Kr)

FINLAND (May 8 / Mkk)

FRANCE (May 7 / Frs.)

GERMANY (May 8 / Dm.)

GREECE (May 8 / Drachma)

ITALY (May 8 / Lire)

NETHERLANDS (May 8 / Fl.)

NORWAY (May 8 / Kroner)

POLAND (May 8 / Zloty)

PORTUGAL (May 8 / Escudo)

SPAIN (May 8 / Pts.)

SWEDEN (May 8 / Kronor)

SWITZERLAND (May 8 / Frs.)

TURKEY (May 8 / Tk Lira)

PACIFIC

JAPAN (May 8 / Yen)

AUSTRALIA (May 8 / Aus$)

HONG KONG (May 8 / H.K.$)

INDONESIA (May 8 / Rupiah)

MALAYSIA (May 8 / MYR)

NEW ZEALAND (May 8 / NZ $)

SINGAPORE (May 8 / S$)

SOUTH KOREA (May 8 / Won)

TAIWAN (May 8 / TW $)

THAILAND (May 8 / Baht)

AFRICA

SOUTH AFRICA (May 8 / Rand)

AMERICAS

CANADA

TORONTO (May 8 / Can $)

4 pm close

MONTREAL (May 8 / Can $)

4 pm close

MEXICO (May 8 / Peso)

12:30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 8 1998 US Dollar Index	% chg since 31/12/97	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/97	Gross Div. Yield	THURSDAY MAY 7 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	207.09	3.5	187.62	173.62	190.43	216.18	5.8	3.61	206.16	185.70	173.38	189.03	215.61	243.87	190.26	228.81
Austria (25)	240.77	27.4	218.14	201.86	221.41	221.27	25.3	1.49	238.85	213.36	199.19	217.19	217.06	240.77	161.60	167.20
Belgium (26)	331.30	30.2	300.16	277.76	304.65	298.13	28.2	2.43	329.44	296.76	277.04	302.09	295.53	335.66	234.33	245.12
Brazil (28)	245.78	3.1	222.67	206.06	226.01	517.95	5.7	1.90	243.56	219.41	204.82	223.34	513.20	322.44	184.84	253.06
Canada (120)	246.15	15.9	223.01	206.37	226.36	255.72	18.2	1.57	242.18	218.16	203.66	222.07	252.51	248.78	197.23	197.23
Denmark (34)	506.48	13.2	458.88	424.64	465.75	464.27	11.4	1.30	507.87	457.31	428.91	465.52	464.27	521.81	371.13	371.13
Finland (28)	442.50	58.9	400.90	370.99	406.91	499.24	56.8	1.83	442.14	398.29	371.81	405.43	497.18	448.80	263.91	263.91
France (78)	313.51	31.0	284.04	262.85	288.30	291.73	29.2	2.02	314.50	283.31	264.48	288.39	291.73	317.11	213.42	220.13
Germany (58)	285.66	24.5	258.81	239.49	262.68	262.68	22.5	1.26	282.86	254.81	237.87	259.36	259.36	290.93	204.89	208.70
Greece (37)	276.05	0.0	250.10	231.44	253.85	609.74	0.0	1.52	282.48	254.47	237.55	259.03	624.08	298.79	276.05	–
Hong Kong, China (66)	302.12	-15.4	273.72	253.29	277.82	300.58	-15.4	5.29	300.54	270.73	252.73	275.59	299.02	580.03	282.93	486.57
Indonesia (27)	40.98	-38.0	37.13	34.35	37.68	233.80	5.0	3.02	40.69	36.65	34.22	37.31	237.12	254.90	27.67	233.04
Ireland (16)	548.62	36.6	496.98	459.88	504.40	544.27	37.1	1.78	549.30	494.82	461.92	503.69	544.27	560.44	336.69	336.89
Italy (54)	167.68	42.5	151.92	140.58	154.19	218.48	40.6	1.22	164.47	148.16	138.31	150.81	213.70	177.15	86.93	89.10
Japan (480)	93.34	-2.0	84.57	78.26	85.84	78.26	-0.1	1.01	93.22	83.97	78.39	85.48	78.39	141.12	88.52	124.04
Malaysia (107)	167.43	1.8	151.69	140.37	153.96	245.68	-0.3	2.81	168.12	151.45	141.38	154.16	248.82	545.67	113.56	545.67
Mexico (28)	1644.69	-8.8	1490.10	1378.91	1512.41	15247.10	-4.1	1.55	1639.94	1477.28	1379.07	1503.78	15239.78	1901.98	1384.81	1384.81
Netherlands (19)	511.81	24.9	463.71	429.11	470.65	465.61	22.8	1.98	504.78	454.71	424.48	462.87	457.80	521.95	361.78	361.78
New Zealand (14)	70.36	-7.9	63.74	58.99	64.70	68.49	-2.0	4.77	69.87	62.94	58.76	64.07	68.21	96.47	69.87	87.30
Norway (36)	345.57	8.2	313.09	289.78	317.78	346.91	8.5	1.81	347.24	312.80	292.01	318.41	347.45	374.84	281.62	289.89
Philippines (22)	95.68	20.6	86.68	80.22	87.98	187.87	19.1	1.11	93.93	84.62	78.99	86.14	186.08	173.10	57.54	160.24
Portugal (18)	284.28	0.0	257.58	238.34	261.41	353.16	0.0	1.07	285.01	258.74	239.68	261.35	352.39	298.39	284.28	–
Singapore (42)	198.04	-12.9	177.82	164.36	180.28	146.17	-16.4	2.05	194.44	175.15	163.51	178.30	145.85	401.75	144.01	380.93
South Africa (43)	326.70	23.1	295.99	273.90	300.42	361.50	28.1	2.46	326.08	293.74	274.21	299.00	361.02	364.24	227.86	380.86
Spain (31)	374.55	37.8	339.34	314.02	344.43	428.41	35.9	1.79	374.73	337.56	315.12	343.62	425.29	396.69	236.28	237.88
Sweden (49)	607.12	29.3	550.06	509.01	558.30	682.90	23.8	1.71	607.74	547.46	511.07	557.28	682.59	610.82	437.98	437.98
Switzerland (30)	406.01	19.7	369.66	342.08	375.19	373.68	21.3	1.06	407.62	357.19	342.78	373.76	371.25	409.84	281.04	281.04
Thailand (39)	23.99	24.3	21.74	20.11	22.06	35.94	-0.3	6.69	24.28	21.86	20.40	22.25	36.65	69.48	13.10	69.48
United Kingdom (208)	384.40	15.9	348.26	322.28	353.48	348.26	16.5	2.83	384.50	346.36	323.34	352.58	346.36	401.84	293.10	283.61
USA (635)	453.16	14.3	410.56	379.93	416.71	453.16	14.3	1.42	448.01	403.57	376.74	410.81	448.01	462.18	332.13	332.13
Americas (810)	410.70	14.0	372.10	344.33	377.67	346.93	14.1	1.43	405.99	365.72	341.41	372.28	343.01	418.95	303.74	303.74
Europe (748)	357.50	23.7	323.90	299.73	328.75	338.41	22.8	1.99	356.34	321.00	299.66	326.76	333.95	363.50	255.09	255.08
Nordic (149)	530.66	28.7	480.80	444.92	488.00	529.57	24.9	1.88	531.32	478.62	446.80	487.21	526.11	535.75	378.44	378.44
Pacific Basin (869)	102.59	-3.1	92.95	86.01	94.34	86.78	-1.5	1.71	102.36	92.23	86.10	93.86	86.85	158.99	95.32	142.81
Euro-Pacific (1617)	208.85	14.6	189.22	175.10	192.06	180.86	14.5	1.91	208.24	187.58	175.12	190.95	179.98	216.04	172.03	189.63
North America (755)	440.03	14.4	398.67	368.92	404.64	439.92	14.4	1.42	434.93	391.79	365.75	398.82	434.90	449.61	323.86	323.86
Europe Ex. UK (540)	332.37	28.0	301.13	278.66	305.64	320.43	28.4	1.58	330.71	297.91	278.11	303.25	317.80	334.61	228.74	228.74
Pacific Ex. Japan (389)	187.02	-6.7	169.44	156.80	171.98	189.64	-6.2	4.11	186.18	167.71	156.56	170.72	189.23	318.96	161.31	302.69
World Ex. US (1835)	213.02	14.3	193.00	178.60	195.89	189.49	14.4	1.90	212.25	191.20	178.49	194.63	187.48	220.18	175.30	193.00
World Ex. UK (2262)	281.51	14.1	255.05	236.02	258.87	256.80	14.1	1.51	279.12	251.43	234.72	255.94	254.36	287.02	231.87	231.87
World Ex. Japan (1990)	388.06	16.5	351.58	325.35	356.85	380.81	16.3	1.72	384.85	346.66	323.63	352.90	377.19	394.39	295.12	295.12
The World Index (2470)	290.24	14.3	262.95	243.33	266.89	264.86	14.3	1.85	288.04	259.47	242.22	264.12	262.64	295.57	237.14	237.14

 PLEASE NOTE: Amendment to indices 7/5/98 applied to Finland, ...

Emerging markets: IFC investable indices

Dollar terms

May 7 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	1,068.98	-1.1	-1.7
Brazil	485.86	-1.2	+0.7
Chile	594.41	-0.4	-7.5
Colombia	506.21	-0.8	-27.8
Mexico	712.87	-0.2	-8.5
Peru	218.32	-1.4	-2.3
Venezuela	682.29	+0.5	-33.1
East Asia			
China	42.05	-1.8	-29.9
Korea	39.29	-1.3	+30.1
Philippines	134.13	-1.4	+10.8
Taiwan, China	139.85	-1.1	-1.9
South Asia			
India	91.78		+8.1
Indonesia	20.65	-4.9	-38.7
Malaysia	52.77	+1.8	+1.8
Pakistan	207.25		-16.8
Sri Lanka	139.76	-3.0	+12.4
Thailand	65.03	+0.7	+40.8
Europe/Mideast/Africa			
Czech Rep	58.74	-3.0	+3.7
Egypt	89.92	-0.3	-8.8
Greece	510.39	-3.2	+57.5
Hungary	348.89	+0.5	+11.1
Israel	128.18	+0.4	+8.7
Jordan	216.89	-0.1	+2.3
Morocco	168.79	+0.4	+23.4
Poland	803.57	-1.2	+34.2
Portugal	317.89	-0.2	+58.8
Russia	118.34	-2.4	-21.8
S Africa	228.87	-1.8	+25.8
Slovakia	74.21	-1.1	-45.2
Turkey	280.04	-2.8	-4.5
Zimbabwe	241.18	-1.8	-4.2
Regions			
Composite	238.17	-1.6	+11.6
Latin America	128.20	-1.5	-8.0
Asia	80.04	-0.7	+30.3
EMEA	253.05	-0.9	+3.1
Europe	835.87	-0.7	-0.3
E. Europe	189.85	-0.2	+8.8
ME & Africa	171.85	-1.5	+15.8

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Mar 6 1992; ... Dec 31 1992; ... (13)Dec 31 1992; (16) July 2 1993. Latest indices were unavailable for this edition.

Prices supplied by Extel, part of FT information.

4 pm close May 8

NEW YORK STOCK EXCHANGE PRICES

1998 High	Low	Stock	Div.	Yld. %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
¶ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 8	May 7	May 6	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9055.15	8976.88	9054.65	9192.66 (4/5)	7580.42 (9/1)	9192.66 (4/5/98)	41.22 (8/7/32)
Home Bonds	104.60	104.80	104.91	105.48 (15/1)	104.51 (5/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3424.92	3384.84	3380.75	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	282.35	281.49	282.64	291.18 (2/4)	262.66 (9/1)	291.18 (2/4/98)	16.53 (8/7/32)

DJ Ind. Day's High 9143.09 (9102.60) Low 8951.27 (8914.60) (Theoretical†)
Day's High 9089.75 (9055.66) Low 8971.20 (8965.22) (Actual†)

Standard and Poors	May 8	May 7	May 6	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1108.14	1095.14	1104.92	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials‡	1295.70	1279.36	1291.52	1311.48 (22/4)	1077.40 (9/1)	1311.48 (22/4/98)	3.52 (30/6/32)
Financial‡	132.38	131.18	132.24	140.63 (14/4)	110.65 (9/1)	140.63 (14/4/98)	7.13 (4/8/74)
NYSE Comp.	575.72	570.22	574.57	585.62 (22/4)	487.47 (9/1)	585.62 (22/4/98)	4.64 (25/4/42)
Amex Comp	744.23	742.25	743.33	763.67 (22/4)	646.41 (12/1)	763.67 (22/4/98)	524.26 (16/7/96)
NASDAQ Comp	1864.37	1835.14	1856.66	1917.81 (22/4)	1503.22 (9/1)	1917.81 (22/4/98)	54.87 (3/10/74)
Russell 2000	479.50	475.98	479.37	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	129.38 (7/12/83)

Ratios

	May 1	Apr 24	Apr 17	Year ago
Dow Jones Ind. Div. Yield	1.54	1.65	1.53	1.73

	May 6	Apr 29	Apr 22	Year ago
S & P Ind. Div. yield	1.33	1.35	1.29	1.72
S & P Ind. P/E ratio	30.66	30.29	31.13	23.33

US DATA

Market Activity

● Volume (million)

	May 8	May 7	May 6
NYSE	580.528	585.548	608.540
Amex	28.633	29.586	28.320
NASDAQ	722.311	725.205	782.111

NYSE	May 8	May 7	May 6
Issues Traded	3,463	3,461	3,507
Rises	1,800	1,006	1,154
Falls	1,110	1,936	1,803
Unchanged	573	527	550
New Highs	63	53	80
New Lows	27	33	24

NYSE Trading Activity

Volume : 580,528,710

Active Stocks

Friday	Stocks traded	Close price	Day's change
Chrysler	10,231,000	58⅛	+⅛
Compaq	8,192,200	32⅛	+½
Woolwth	5,846,000	21⅛	-1
BayNetwks	5,788,100	24⅞	+⅜
AT&T	5,738,700	57⅝	-⅛
Phillips	5,281,100	38¾	-⅛
Pepsico	4,753,700	38⅝	+⅝
Cendnt	4,609,000	24	+⅛
Unisys	3,966,200	24½	+1⅞
Travlr	3,846,100	58⅝	-¼

Biggest Movers

Friday	Close price	Day's change	Day's chge %
Ups			
Vishay Int	23⅛	+2⅛	+11.0
Lucasfva	17⅝	+1½	+9.4
General Inc	20⅛	+1½	+7.8
Whittaker	15	+1⅛	+7.6
Downs			
Handleman	10⅝	-⅝	-5.7
Kaufman&Br	27⅛	-1⅛	-4.0
Woolwth	21⅛	-1	-4.5
Ducommun	33⅝	-1½	-4.3

NASDAQ Trading Activity

Volume 722,311,400

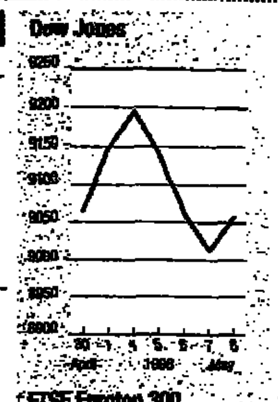
Active Stocks

Friday	Stocks traded	Close price	Day's change
Micsft	24,019,100	85¼	+2⅝
Intel	17,072,100	84⅛	+3⅛
DellComp	13,958,300	91¼	+5¾
AscendCom	9,179,400	45¼	+3⅛
3Com	7,536,000	31⅞	-¼
WrldCom	7,347,500	43⅛	+¼
CiscoSys	5,917,200	76¾	+⅜
MCI Cm	5,684,000	50⅛	+¼
AdvTiss	4,985,700	10⅞	+2⅛
Oracle	4,778,400	26⅝	+⅜

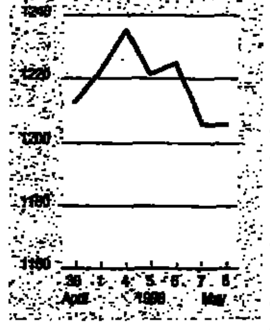
Biggest Movers

Friday	Close price	Day's change	Day's chge %
Ups			
AdvTiss	10⅞	+2⅛	+23.2
Capitla	14⅞	+2	+15.9
MrcrC)	11⅞	+1⅛	+13.8
Adrian	28½	+3⅛	+12.9
Downs			
OckRespSrv	36⅝	-9⅝	-20.9
PremTec	27⅛	-3⅝	-11.8
SignRes	17	-2	-10.5
PaySale	19⅝	-1⅞	-8.8

Dow Jones



FTSE Eurotop 300



JAPAN

	May 8	May 7	May 6	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15149.00	15143.03	15243.84	17264.36	14664.44	38915.9	85.25

Day's High 15309.81 Day's low 15038.72

Tokyo Trading Activity

Volume : 449,000,000

[illegible]

FRANCE

	May 8	May 7	May 6	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	Closed	3988.35	3947.45	3988.75	2852.54	3988.75	894.61

Paris Trading Activity

Volume : 447,228,780

[illegible]

GERMANY

[illegible]

Frankfurt Trading Activity

Volume : 14,473,714

[illegible]

UK

[illegible]

London Trading Activity

[illegible]

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	1098.80	1115.50	+17.20	1116.80	1097.00	120,397	337,283
Sep	1115.00	1127.70	+17.40	1128.80	1114.30	817	12,915
Nikkei 225							
Jun	15080.0	15140.0	-10.0	15200.0	15030.0	25,002	187,532
Sep	15180.0	15170.0	+120.0	15200.0	15170.0	12,826	12,821

CAC-40	Open	Sett price	Change	High	Low	Est. vol.	Open int.
May	3888.0	3891.0	-39	3900.0	3885.5	725	35,794
Jun	3870.0	3871.5	-39	3870.0	3870.0	477	19,704
DAX							
Jun	5240.0	5174.0	-73.0	5289.0	5183.0	25,283	125,197
Sep	5278.5	5218.5	-75.0	5300.0	5215.5	133	17,423

FTSE	Open	Sett price	Change	High	Low	Est. vol.	Open int.
[illegible]							

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ STOCK MARKET

4 pm close May 8

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close May 8

[illegible]

EASDAQ

[illegible]

FT GUIDE TO THE WEEK

MONDAY 11

Rhodes to peace

Foreign and defence ministers from member states of the Western European Union, the EU's fledgling defence arm, meet on the resort island of Rhodes. Greece, holding the WEU's rotating presidency for the first time, will chair the meeting. The low-level war in Serbia's rebellious province of Kosovo, where Albanian rebels are fighting police and government troops, will be at the top of the agenda. Javier Solana, North Atlantic Treaty Organisation secretary-general, will attend the meeting and is due to hold talks with Greek and Turkish officials on implementing confidence-building measures in the Aegean Sea designed to prevent a military clash. Greece and Turkey, notional Nato allies, have long-running disputes over sovereignty and airspace control in the Aegean.

G-15 meeting

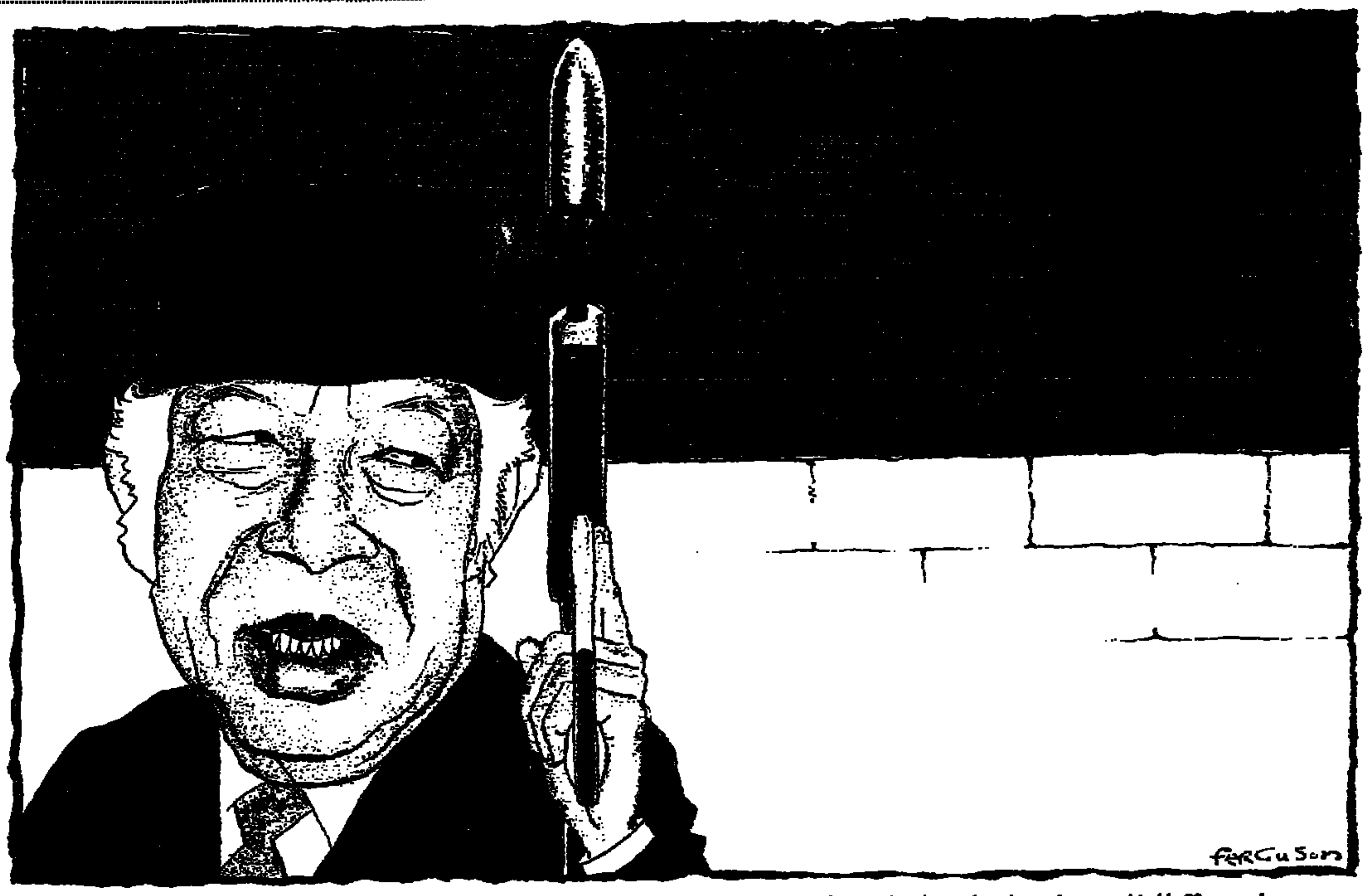
Leaders and heads of government of the Group of 15 middle-income developing countries meet in Cairo for a two-day summit, following meetings of commerce and foreign ministers over the weekend. At the top of the agenda is likely to be the fallout from the Asian currency crisis and its impact on trade between the 15 states, whose purpose as a group is to attempt to counterbalance the power of the G-7 industrial heavyweights. The G-15, led by Indonesia, Egypt and a number of Latin American states, aims to bolster mutual trade and investment ties and argue the case for middle-income states during global trade talks. President Suharto of Indonesia is attending despite the mounting political crisis facing his country. Egypt is keen to show that it is ready to welcome top-level delegations despite threats from Islamic militants whose activities have deterred tourists from visiting the country.

Health report

The World Health Organisation, which this year celebrates its 50th birthday, holds its annual assembly in Geneva (to May 16). On Wednesday the WHO's 191 members will elect Dr Gro Harlem Brundtland, former Norwegian premier, to be the UN body's fifth director-general. Dr Brundtland, nominated by the WHO's executive board in January, will take office in July. Other subjects of discussion will be the WHO's "health-for-all" policy for the 21st century, control of tropical diseases, a revised drugs strategy, anti-microbial resistance and non-communicable diseases such as heart disease and cancer.

Waiving arms

The Geneva-based United Nations conference on disarmament begins its second session of the year (to June 26). The conference, whose 61 members include the five declared nuclear powers, has been deadlocked for more than a year over negotiating priorities. Western nations are seeking talks on ending production of weapons-grade fissile material, while there is also support for negotiations on anti-personnel land mines, starting with an export ban. But non-aligned nations have blocked decisions by demanding parallel talks on total nuclear disarmament which the nuclear powers have refused.



President Suharto of Indonesia is attending a conference of the Group of 15 developing countries in Egypt despite growing demands at home for an end to his 32-year rule

Philippines poll

The Philippines holds national elections for a new president, 12 senators, 208 Congressmen and more than 17,000 local officials. An estimated 34m Filipinos are expected to vote in the country's second exercise in nationwide democracy since the downfall of the late dictator Ferdinand Marcos in 1986. Joseph Estrada, the populist vice-president and former movie star, has consistently trounced his 11 rivals in the polls. Jose de Venecia, the House speaker and administration candidate with business links dating back to the Marcos years, has aroused fears of a return to crony capitalism. Following five years of strong economic recovery under President Fidel Ramos, all candidates agree broadly on the need for continuity.

Hot air conference

The Institute of Petroleum holds a two-day conference in London on emerging markets for carbon emissions

trading, following the Kyoto conference on climate change last December. The conference, which is co-sponsored by the Geneva-based United Nations conference on trade and development, will discuss the relevance and potential of emissions trading and other market mechanisms to reduce carbon emissions for energy suppliers, the financial and services sector and the transport sector.

Energy markets

The Council of the European Union meets to discuss common rules for the internal market in electricity and natural gas, and the use of energy and its effects on the environment in view of the Kyoto Commission working paper.

FT Survey

Review of the Automobile Industry.

Holidays

Bangladesh (tentative, dependent on sighting of moon), India, Indonesia, Philippines, Singapore (all markets except Simex closed), Sri Lanka, Thailand, Ukraine.

TUESDAY 12

Tobacco backing

The European Parliament is expected to adopt proposed amendments to a European Commission proposal to ban tobacco advertising. The amendments, proposed by the European Council, will exempt sponsorship by tobacco companies from the the provisions of the legislation until October 2006 at the latest.

Best forms of defence

An international defence electronics fair opens at Beijing's international exhibition centre.

FT Surveys

Canada; Egypt.

Holidays

Sri Lanka

WEDNESDAY 13

Bill in Berlin

Bill Clinton, the US president, starts a two-day visit to Germany in Berlin. In the company of Helmut Kohl, the German chancellor, Mr Clinton will commemorate the efforts of western forces on the 50th anniversary of the Berlin airlift. The president will also visit General Motors' Opel factory at Eisenbach.

Bank watch

The Bank of England publishes its latest quarterly Inflation Report, after its previous report in February surprisingly showed inflation running above the government's target rate. Subsequent interpretation of the forecast set off strong differences of opinion within the Bank. The result may be that today's report includes different inflation forecasts, reflecting different views on what is likely to happen over the next two years. Also published today are the latest figures for unemployment and earnings. The labour market statistics for March showed a fall of just 6,000 collecting unemployment benefits. April's figures will be watched closely to see if the trend for the last two years of falling unemployment is about to end.

Voting in the ECB

Members of the European Parliament will hear the recommendations of the economic committee regarding the appointment of a governor and board members of the European Central Bank. MEPs will be asked to confirm the nominations after two days of hearings in Brussels last week, during which Wim Duisenberg exposed his plans for the ECB should he be confirmed as its governor.

THURSDAY 14

Healthy distance

An intriguing diplomatic encounter is possible at the Geneva headquarters of the United Nations, where Fidel Castro, Cuba's president, will be among the dignitaries celebrating the 50th anniversary of the World Health Organisation. Later in the day, Hillary Clinton, wife of the US president, will receive the United Arab Emirates Health Foundation Prize for outstanding contributions to health developments, which carries a prize of $40,000.

Israel at 50

Jews throughout the world celebrate the 50th anniversary of the foundation of the state of Israel.

View of the future

A two-day conference entitled "Palestine – Between Zionism and Israelism" begins in Geneva, organised by a Swiss-based group for Palestinians and Lebanese. The sessions cover the history of the region, religious dimensions, and the future of the peace process. Speakers include western and Arab academics, human rights experts and pro-peace Israelis.

FT Surveys

Czech Industry and Investment; Pension Fund Investment.

Holiday

Liberia (half-day).

FRIDAY 15

G-8 in Birmingham

Leaders of the Group of Eight major powers start their annual summit in Birmingham, England for 2½ days of talks that will focus on issues of labour competitiveness, the Asian financial crisis, international crime and drugs as well as reviewing the state of Middle East peace talks and the Kosovo crisis in the Balkans.

SUNDAY 17

The big event

More than 1,000 of the world's tallest people gather for the annual European Convention of Tall People, held for the first time in London. As well as providing the opportunity for delegates to make friends of their own size, the week-long convention aims to highlight the uncomfortable fact that, while the

average height of the population increases by 1in for each generation, the standard sizes of things like beds and doors have remained unchanged for more than a century. The convention celebrates the arrival this year of its first delegate from Japan.

Compiled by Roger Beale
Fax 44 171 873 3196

ECONOMIC DIARY

Other economic news

Monday: New orders for German industry in March are predicted to show increases in demand from foreign buyers, especially in engineering and aviation. Domestic orders, however, are expected to remain little changed.
Tuesday: After March's trade statistics showed Japan's export growth is slowing, its current account surplus for March is expected to have grown by another Y1,600bn – a fall of 25 per cent to Y1,100bn on a seasonally adjusted basis.
Wednesday: The Bank of England publishes its latest Inflation Report, along with minutes of the Monetary Policy Committee's April meeting. Unemployment and average earnings data for April is also released.
Thursday: Consumer prices in the US look likely to record their highest increases so far this year. Core consumer prices, excluding food and energy, could see a rise of 0.2-0.3 per cent in April. Higher food costs could help put the overall CPI up by 0.2 per cent.
Friday: Industrial production and capacity utilisation in the US are due for an increase, to reflect recent expansion.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Monday	UK	Mar industrial production*	0.0%	-0.5%
May 11	UK	Mar industrial production**	2.2%	-0.2%
	UK	Mar manufacturing output*	0.1%	0.0%
	UK	Mar manufacturing output**	0.4%	0.1%
	UK	Apr producer price index input*	-0.4%	-1.0%
	UK	Apr producer price index input**	-8.1%	-10.1%
	UK	Apr producer price index output*	0.2%	0.2%
	UK	Apr producer price index output**	1.1%	1.0%
	UK	Apr pro'pri'indx ex-food/drink/tob**	0.4%	0.2%
	UK	Apr British Retail Consortium survey		0.4%
	Japan	Apr overall wholesale price index*		-0.3%
	Japan	Apr overall wholesale price index**		-1.1%
	Japan	Apr domestic wholesale price index**		-0.1%
Tues	France	Apr household survey	-18	-18
May 12	US	Apr Atlanta Fed index		26.1
	US	BTM-Schroders May 9		0.2%
	US	Apr export price index		-0.2%
	US	Apr import price index		-1.0%
	Japan	Mar current account (IMF) not†		Y1.04tn
	Japan	Mar trade balance (IMF) not†		Y1.03tn
Weds	France	Apr consumer price index prel*	0.1%	0.2%
May 13	UK	Apr unemployment	-10k	-8k
	UK	Feb average earnings	4.50%	4.50%
	UK	Mar unit wages three months**	5.00%	4.6%
	US	Apr retail sales	0.5%	Unch

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
	US	Apr retail sales ex-automobiles	0.5%	0.2%
	US	Apr producer price index	0.1%	0.3%
	US	Apr producer price indx ex-food/energy	Unch	Unch
Thurs	Japan	Mar machinery orders ex-elect'/ships**		-17.9%
May 14	US	Apr consumer price index	0.2%	Unch
	US	Apr consumer price indx ex-food/energy	0.2%	0.1%
	US	Mar business inventories	0.3%	0.6%
	US	Apr real earnings		-0.2%
Fri	France	Feb current account†	FFr16.0bn	FFr18.1bn
May 15	France	Q1 non farm payroll prel	0.5%	0.5%
	US	Apr industrial production	Unch	0.2%
	US	Apr capacity utilisation	81.9%	82.2%
	US	Mat Michigan Sentiment preliminary**	108.2	N/A
	US	Apr bank credit		11.7%
	US	Apr Commercial & industrial loans		1.9%
During the week...				
	Germany	Apr final cost of living* west		-0.3%
	Germany	Apr final cost of living** west		1.0%
	Germany	Apr cost of living* pan Germany	0.2%	-0.2%
	Germany	Apr cost of living** pan Germany	1.3%	1.1%
	Germany	Mar retail sales, real not†**	0.0%	-0.6%
	Germany	Mar retail sales, real †*	-0.6%	-0.6%
	Germany	Apr wholesale price index*	-0.1%	-0.3%
	Japan	Apr Tokyo department store sales**		-21.4%

*month on month, **year on year, †seasonally adjusted. *Statistics, courtesy Standard & Poor's MMS.*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 10.05.98 — Final Prices for Trading on 12.04.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	11.64	15.11	15.11	0.00
0100	11.64	15.05	15.05	0.00
0130	11.64	15.12	15.12	0.00
0200	11.64	16.21	16.70	1.24
0230	11.64	16.21	16.70	1.24
0300	11.64	19.23	19.71	1.24
0330	11.64	19.23	19.71	1.24
0400	11.64	16.21	16.70	1.24
0430	11.64	16.21	16.70	1.24
0500	11.64	15.12	15.12	0.00
0530	13.23	14.00	14.49	1.24
0600	10.24	14.00	14.49	1.24
0630	11.48	14.00	14.49	1.24
0700	11.48	14.00	14.49	1.24
0730	13.23	14.00	14.49	1.24
0800	13.23	14.00	14.49	1.24
0830	11.48	15.11	15.11	0.00
0900	11.48	15.11	15.11	0.00
0930	13.97	15.05	15.05	0.00
1000	15.11	15.05	15.05	0.00
1030	15.59	15.05	15.05	0.00
1100	15.59	15.11	15.11	0.00
1130	15.59	14.54	15.02	1.24
1200	15.59	14.54	15.02	1.24
1230	15.59	14.54	15.02	1.24
1300	15.59	14.54	15.02	1.24
1330	15.59	14.54	15.02	1.24
1400	14.13	14.54	15.02	1.24
1430	14.13	15.11	15.11	0.00
1500	14.13	15.00	15.00	0.00
1530	10.50	14.00	14.00	0.00
1600	10.24	14.00	14.00	0.00
1630	10.22	14.00	14.00	0.00
1700	14.13	14.00	14.00	0.00
1730	15.08	14.00	14.00	0.00
1800	15.16	14.00	14.00	0.00
1830	16.16	14.00	14.00	0.00
1900	15.18	14.00	14.00	0.00
1930	15.16	15.05	15.05	0.00
2000	15.18	14.54	15.02	1.24
2030	14.13	14.54	15.02	1.24
2100	18.88	14.54	15.02	1.24
2130	17.28	14.54	15.02	1.24
2200	17.28	14.54	15.02	1.24
2230	17.28	14.54	15.02	1.24
2300	17.28	14.54	15.02	1.24
2330	16.88	14.54	15.02	1.24
2400	11.96	14.54	15.02	1.24

[illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 11.05.98 — Final Prices for Trading on 13.04.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	11.98	15.05	15.05	0.00
0100	10.24	15.00	15.00	0.00
0130	11.98	15.05	15.05	0.00
0200	11.98	15.11	15.88	1.32
0230	11.98	15.11	15.88	1.32
0300	11.98	15.11	15.88	1.32
0330	11.98	15.11	15.88	1.32
0400	11.98	15.11	15.88	1.32
0430	11.98	15.11	15.88	1.32
0500	10.50	15.11	15.88	1.32
0530	10.55	15.05	15.05	0.00
0600	10.00	15.03	15.81	1.32
0630	10.60	15.03	15.81	1.32
0700	10.74	15.03	15.81	1.32
0730	23.10	15.03	15.81	1.32
0800	22.01	15.06	15.06	0.00
0830	27.32	15.12	15.12	0.00
0900	34.39	15.12	15.12	0.00
0930	68.51	15.12	15.12	0.00
1000	71.69	27.62	28.39	1.32
1030	49.44	27.62	28.39	1.32
1100	56.20	27.62	28.39	1.32
1130	58.92	27.62	28.39	1.32
1200	76.69	27.62	28.39	1.32
1230	75.67	27.62	28.39	1.32
1300	71.64	27.62	28.39	1.32
1330	44.94	27.62	28.39	1.32
1400	43.19	27.62	28.39	1.32
1430	42.45	15.03	15.81	1.32
1500	41.24	15.05	15.05	0.00
1530	40.85	15.05	15.05	0.00
1600	41.89	15.05	15.05	0.00
1630	47.27	15.11	15.11	0.00
1700	73.12	15.11	15.11	0.00
1730	71.33	15.05	15.05	0.00
1800	43.57	15.05	15.05	0.00
1830	32.55	15.05	15.05	0.00
1900	22.78	15.00	15.00	0.00
1930	21.44	12.40	12.40	0.00
2000	22.56	15.11	15.11	0.00
2030	14.01	30.02	30.80	1.32
2100	21.45	30.02	30.80	1.32
2130	42.09	30.02	30.80	1.32
2200	43.50	30.02	30.80	1.32
2230	35.82	15.03	15.81	1.32
2300	28.47	15.03	15.81	1.32
2330	22.21	15.03	15.81	1.32
2400	22.21	14.43	15.21	1.32

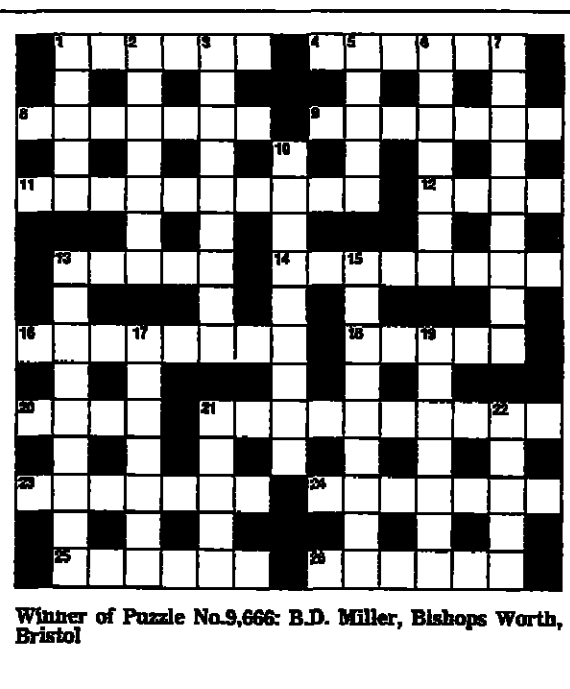
[illegible]

ACROSS

1, 4 Hid and used lift to go down (4,2,6)
8 Stan takes it back round with the post (7)
9 Eyes women in black around noon (7)
11 So hires her contraption as it pulls carts (5,5)
12 One is born holding a bird (4)
13 Officer in charge is a pain (5)
14 Very big light may explode (8)
16 Suffocates parents after starting school (8)
18 On road, reversing, I have to steer (5)
20 Mount is appearing in film (4)
21 Saying those revealing bravery love me interfering (10)
23 After first aid let the doctor see the sportsman (7)
24 Electrify concealed listening device to identify arsonist (7)
25 Awfully hearty but vulgar (6)
26 Grab at companion after son drops round (6)

DOWN

1, 13 down That comic we met upset police supervisors (5,9)
2 Tells musician to leave flat perhaps? (7)
3 Likewise chat about man being a pain (9)
5 Assemble piano without approval (5)
6 Ruin function at home waving gun around (7)
7, 22 One chewing a duvet might have, which is sad! (4,3,3,5)
10 Attack blue team (9)
13 See 1 down
15 Ornament could make Lionel mad (9)
17 Gossip about lieutenant taking shoddy article back (7)
19 Vet needs some plain spectacles (7)
21 Agree with getting married at church (5)
22 See 7



Winner of Puzzle No.9,666: B.D. Miller, Bishops Worth, Bristol

MONDAY PRIZE CROSSWORD

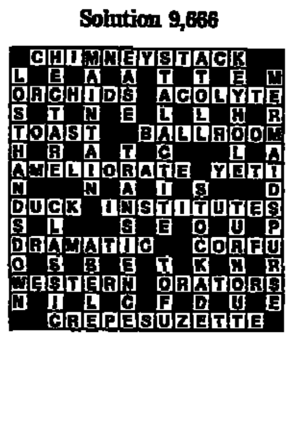
No.9,678 Set by GRIFFIN

A magnum of Laurent Perrier Rosé champagne for the first correct solution opened. This prize is available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a stainless steel FT desk clock. Solutions by Thursday May 21, marked Monday Crossword 9,678 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday May 25. Please allow 28 days for delivery of prizes.

Name...

Address...

Solution 9,666



JOTTER PAD

FT auto

FINANCIAL TIMES REVIEW OF THE AUTOMOTIVE INDUSTRY

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inside

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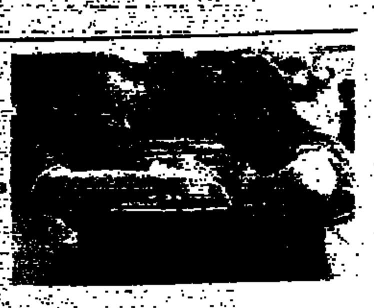

GM's latest UK pay deal shows how the balance of power is changing, says **Haig Simonian**

Employers are back in driving seat

By agreeing to link the third year of their new wage and productivity deal to the level of sterling against the D-Mark, Vauxhall's 9,000 hourly-paid workers have broken new ground in the European motor industry.

Whether other hard-pressed carmakers will follow the example of the UK arm of *General Motors* to try to shift some of their exchange rate risk to their employees remains to be seen.

But the Vauxhall package, agreed last month, marks a further significant shift in the balance of power between workers and management in Europe's motor industry.

Vauxhall's agreement follows recent accords at its Adam Opel sister company in Belgium and Germany. In each case, workers agreed to moderate their pay, potentially below the rate of inflation, and accepted greater flexibility in return for long-term commitments on jobs and investment.

GM's European deals resemble the arrangements made last year by Ford with workers in the UK and Germany. Similar packages have been struck at Volkswagen and Mercedes-Benz in Germany.

The apparent docility of the European motor industry's once-notoriously militant employees speaks volumes about the changes which have reshaped the region's carmakers in recent years.

Greater model homogeneity has given multinational manufacturers the chance to arbitrage between their factories when sourcing new models. While Ford's UK and German operations would once have produced distinct vehicles based on incompatible platforms, the company now sources identical cars from plants in the UK, Spain or Germany.

Employers' leverage over workers has been reinforced by the political changes which have swept eastern and central Europe since the collapse of communism. Not only have new markets become available, but so have low-cost production sites.

The changes have given manufacturers the flexibility to build cars where costs are lowest. Admittedly, their calculations are not based on costs alone; quality, productivity and logistics all come into the equation.

But the broad impact of model standardisation and the internationalisation of production has been to weaken workers' bargaining power in higher-cost countries. Some manufacturers have aggressively used that greater flexibility to secure concessions from their unions: Ferdinand Piëch, VW's combative boss, has encouraged competition between his group's four car brands and its myriad production sites to secure significant concessions from its once-famously unproductive German employees.

Others have achieved broadly similar results less blatantly. Ian McAllister, chairman of Ford of Britain and head of the Society of Motor Manufacturers and Traders, the UK motor industry association, is circumspect in his choice of words to describe the changes which have swung the pendulum in labour relations. "What has changed is the attitude of management to working relations. Information is now shared in great detail," he says.

"Our employees have a complete understanding of our competitive position. It's not just a question of playing off one plant against another, but how you compete in the global motor business. Our people understand that. If you can't meet those levels, the world doesn't owe you a living."

Mr McAllister, a Ford veteran from the UK, US and Germany, rightly draws attention to management's willingness to disclose information about competitive issues in much greater detail than in the past. Trade union leaders have also become more sophisticated in their approach and more sensitive to international competition.

But the arrival of a more co-operative spirit and sense of shared interests does not change the fundamental message of the recent wage deals in Europe. In a climate of overcapacity and cut-throat competition, carmakers have gained the upper hand over their workers.

Vauxhall's decision to link pay with exchange rates may not catch on – the prolonged strength of sterling is an unprecedented development – but it is a striking reminder of broader shifts in the motor industry's labour market.

$92bn merger overshadows the passions

The announcement last week that Chrysler and Daimler-Benz planned a $92bn merger overshadowed two other outstanding questions of ownership in the motor industry, write our FT Auto staff.

Jürgen Schrempp, who is to be co-chairman of Daimler-Chrysler, said the German-US merger would "change the face of the world motor industry". The companies expect their marriage to reap benefits of $1.4bn next year and annual benefits of $3bn within the next few years. There were no planned factory closures nor job cuts planned in the "merger of equals".

Meanwhile, the future of Rolls-Royce Motor Cars in the UK and Kia Motors in South Korea were provoking passionate reactions on either side of the globe.

The battle for Rolls-Royce has turned into an unexpected fracas between BMW and Volkswagen after the latter's 11th hour push for control. Quite why either is so desperate to buy Rolls-Royce is a good question. In spite of its famous name, the company built only 1,900 vehicles last year, and its profits remain deeply vulnerable to world economic swings.

The temperature has risen even faster in South Korea, where a Seoul court last month appointed a receiver for Kia, the country's third-biggest vehicles group, after it applied for protection from its creditors last year.

Kia's fate is central to the long-awaited restructuring of the country's overblown motor industry. With demand crumbling after last year's economic turmoil, South Korea's hugely ambitious carmakers are now suffering from severe indigestion after a surfeit of investment in new capacity in recent years.

Both the government and the Korea Development Bank, Kia's biggest creditor, have so far steered clear of demanding an outright takeover of the heavily-indebted group. Last month, Kia's workers downed tools to protest at the appointment of a receiver.

Samsung and Hyundai, South Korea's two biggest *chaebol*, have made no secret of their desire to play that role. Samsung, which has just started building cars, would like Kia's capacity and engineering know-how to boost its nascent carbuilding side.

Samsung has said it would work together with Ford, which owns about 17 per cent of Kia Motors directly and through Mazda, the Japanese carmaker it controls. Ford, however, has remained resolutely silent.

Hyundai, by contrast, seems motivated primarily by a desire to block Samsung. That would reinforce its position as South Korea's leading carmaker and parry Daewoo's opportunistic growth after the latter's surprise acquisition of troubled SsangYong Motors last year.

People

Diaz Ruiz steps on the gas

John Griffiths reports on the man who, having left Volkswagen, will be spearheading Toyota's drive to be a stronger force in Europe with a broader range of products

In the first quarter of this year Toyota displaced Nissan from the role it has played for the past 20 years as the biggest-selling Japanese manufacturer in western Europe.

Toyota sold 115,442 cars in the quarter, a 20 per cent year-on-year rise in a total new car market up 12 per cent. Nissan sold 108,942, a 10 per cent rise – which meant that it lost market share in the region.

Juan José Diaz Ruiz concedes that his timing thus looks well-judged for deciding to leave the senior role he has been playing in the development of the Volkswagen group's sales in Europe and joining Toyota.

The latter has long been Japan's biggest vehicle maker: it is challenging Ford to be the world's second-biggest producer, but has made slower progress than it had hoped in building up sizeable sales in Europe.

The role now being taken up by Mr Diaz Ruiz, as executive vice-president of Toyota Motor Europe Marketing and Engineering, is to accelerate that process. He becomes the most senior non-Japanese in Toyota's European operations, directly responsible for all aspects of the business, including sales, marketing and strategic planning.

His appointment reflects a substantial restructuring of Toyota's European operations, which has been going on for several years, to better equip it to gain a stronger presence in the world's biggest regional car market, with approaching 14m sales a year.

Mr Diaz Ruiz's timing is opportune in other ways. Next year, the long transitional arrangements between Japan and the European Union which have restricted Japanese car sales in the EU come to an end, and the EU should become a completely open market for new cars – for Japanese imports as well as cars produced at Toyota, Nissan and Honda plants in the UK and in continental Europe.

With a completely open market, Mr Diaz Ruiz maintains that, if all goes according to plan, Europe will be regarding Toyota in a different light by early next century. Its dealers will be selling a much broader spread of products – only around one-third of the company's total model range is currently in European showrooms.

The cars it produces within Europe – currently the Avensis and, within a few months, the Corolla at Burnaston in the UK, plus a small city car planned for a greenfield site in northern France – will be designed and developed in Europe and reflect the continent's tastes and preferences more strongly than anything that has gone before, he insists.

Not least important, "the buyer of a McDonald's hamburger can sometimes be treated better than the buyer of an expensive luxury car; we intend to change that and set new standards in terms of customer satisfaction", says Mr Diaz Ruiz.

But what made him take the job in the first place? "I was simply attracted to the challenge," he maintains.

That is consistent with his previous career shifts. Spanish but educated in the UK, 53-year-old Mr Diaz Ruiz began his motor industry career with Ford of Britain as a trainee and went on to co-found Ford's Spanish operations. "I was just one of five people who first set it up," he recalls.

Seven years on, with Spain's Seat vehicles group in deep trouble as Fiat withdrew its long-standing support, Mr Diaz Ruiz jumped ship to the Spanish group, initially as manager of export operations but eventually as vice-president of export sales and marketing.

"It was again satisfying to be involved in the rescue of Seat and bringing the brand back to life," he says.

The Volkswagen group's takeover in 1993 of what effectively had been Spain's national car company brought another job change – a move to Germany as exports chief at Audi and, until the Toyota job, executive director of marketing and international sales. Fluency in five European languages made the move easier than for most.

He cites the main reasons for taking the job as:

- Toyota's realisation that if it is to become a leading player in Europe then it must become more European in its thinking, strategies and action.

He is keen to learn about Toyota philosophy but at the same time, he insists, Toyota has been making a solid contribution to the welfare of the European motor industry in improving the productivity, efficiency and quality of the region's component suppliers;

- *His belief that Toyota has barely begun to exploit its full potential in Europe.*

Whereas some other carmakers have sought to improve their positions by acquiring extra brands, he says, Toyota can restructure itself in Europe and target the market more effectively with a wider array of Toyota and Lexus models.

Europeans have a very particular way of looking at vehicles, particularly in terms of style, comfort, ride and handling, which must be catered to, he stresses. That means mainstream vehicles developed in Europe for specifically European tastes.

Industry sceptics might suggest that Toyota, in many ways a conservative organisation, may not allow the degree of autonomy that Mr Diaz Ruiz implies, pointing to criticisms of Nissan's Primera range as being still too strongly determined by the parent organisation in Japan.

Norio Matsumura, president of Nissan Europe, has already acknowledged that Nissan's next generation of European models must be more exciting for the region's consumers.

In the 1980s, Mr Diaz Ruiz points out, it was the Japanese industry which was setting the design and technological pace. European makers had responded to the challenge unexpectedly strongly and had regained the initiative.

Now, however, he insists, "the Japanese industry is doing an incredible catch-up". The Yaris – a new small car going on sale in Europe in next year – was designed in Europe for Europe, even though it is not being produced there.

"The decision to build a plant in France also represented a clear determination to meet whatever conditions are necessary with the full conviction that we can do it," he adds.

But, overall, Toyota has "got to be humble. In the past it has set a lot of ambitious objectives and not met them". He is looking only at short-term targets. Toyota wants 600,000 sales in the year 2000 and the signs are good. There was a growth rate of 20 per cent last year and the company is on target to sell 525,000 this year. The hope is to reach 575,000 in 1999.

"But volume is not the key issue – that is to prepare necessary structures, requiring a major overhaul of marketing and dealer organisation in the region. The enormous range of product will require more specialisation within dealer networks. There will also be fewer dealers, but they will need to be stronger, more professional and able and willing to make necessary investments."

Brokering conflicting interests

Takao Tominaga, executive managing director of Japan's Automobile Manufacturers' Association (Jama), is keen to ease European fears that Japan's carmakers are using the weak yen to boost exports now sales at home have fallen so sharply.

He likens the situation to that in the US almost a decade ago, when direct exports from Japan eventually declined as output from Japanese "transplants" rose.

How then does Mr Tominaga, 67, explain present matters, with sales of both locally-produced Japanese vehicles and direct exports climbing so rapidly? Japanese sales rose more than 14 per cent in the first three months of this year, compared with the first quarter of 1997. The market, by contrast, rose 12 per cent.

"It's a kind of temporary phenomenon," says the affable Mr Tominaga, who spent the bulk of his career with Japan's formidable ministry of international trade and industry before moving to Jama in 1988.

A way with words is probably vital for anyone trying to broker the conflicting interests of Japan's powerful car companies. "It is true that, especially in our activities as a think-tank, it's very difficult to reach consensus among our members," he says.

But Mr Tominaga denies that running Jama is an impossible job. "We try to find a common agenda for our industry and be useful to our members."

More often than not that means concentrating on uncontroversial issues, such as co-ordination and providing data. "Jama must be an effective database. I think this is very important. And it must act as a kind of co-ordinator for the industry. We'd also like to be more of a think-tank, especially on future social issues affecting the motor industry."

But, for all his diplomatic skills, Mr Tominaga would probably be the first to admit that Jama's role is likely to remain limited to uncontroversial work on backroom technical issues – albeit often important, such as harmonising standards – rather than as acting as a more conspicuous sounding board for the industry.

Haig Simonian

Companies

Joining the big league

Haig Simonian sees how Rheinmetall has emerged from a round of takeover bids in components

Remember Kolbenschmidt – the German engine components group that was the subject of a seemingly interminable takeover bid by Britain's T&N?

In the end, T&N threw in the towel after unremitting opposition by Germany's cartel office. Soon after, the UK company found itself at the unwelcome end of a takeover battle, falling to Federal-Mogul of the US.

Kolbenschmidt, meanwhile, succumbed to Germany's big Rheinmetall engineering group, which owns Pierburg, a largely complementary maker of engine parts.

Now the dust has settled on the corporate battleground, Hans Brauner, Rheinmetall's chairman, looks back more comfortably on the contorted campaign.

"We came at the right time: there was a strategic window and we appeared," says Mr Brauner, who has just landed a leading role for Rheinmetall in the consortium developing a new "battlefield taxi" for Europe.

"Everybody was a loser from the stalemate," he argues. The city authorities in Stuttgart, where Kolbenschmidt is based, had been vehemently opposed to a foreign buyer. Now local opinion has been mollified: Mr Brauner is not only a native Stuttgarter but also spent much of his career as a troubleshooter for Robert Bosch – the city's leading car parts group. Thereafter he went straight to Rheinmetall with the task to reduce its traditional 70 to 80 per cent dependence on defence.

The Kolbenschmidt takeover also suited Commerzbank, which was keen to sell its 25 per cent stake after the T&N deal collapsed. Even Kolbenschmidt's own management appeared relieved.

So where does Kolbenschmidt Pierburg, the clumsily-named amalgam, go from here? For a start, Mr Brauner, unlike many counterparts, will not commission some costly new moniker for the merged companies. "We are brand name minded. We think old names carry a certain goodwill," Although the double-barreled title might be a mouthful, he reckons trade customers are familiar and happy with it.

What of the future for Rheinmetall? With car parts accounting for about DM3bn of the group's estimated DM7.8bn sales ths year, it has suddenly jumped into European component makers' big league.

"We reckon we rank 21st in the world. My target is to expand components sales to DM5bn by early next century," he says. That would put car parts at near 50 per cent of group turnover given his DM10bn group sales target for 2000.

Mr Brauner recognises Rheinmetal's traditional focus on the domestic motor industry – just 43 per cent of Pierburg's sales go abroad – means internationalisation is essential. Wider coverage will come partly through Kolbenschmidt: the Stuttgart company always sold more abroad than Pierburg.

Mr Brauner says he has two targets. One is for bolt-on acquisitions of companies with sales of DM300m to DM800m. "There are some projects we are already considering."

Most are typical German medium-sized groups, where family owners are selling out. "Rheinmetall's appeal is its decentralised management style: we allow people to carry on working as before but under the protection of a bigger group."

His second aim to further expansion abroad, particularly in North America. Mr Brauner gives no hints about his shopping list. However, he notes Federal-Mogul must make significant disposals in the next six months to win approval for the T&N deal from the competition authorities on both sides of the Atlantic. He and Dick Snell, Federal-Mogul's chairman, are already talking.

One thing is clear: Rheinmetall will steer clear of multi-billion "mega deals". "I think our priority should be to stick to our core engine business, otherwise, there is the danger of losing focus. You should be number one or two in a certain market segment – that is the way you can make money."

Pendragon is taking an international view

Trevor Finn: chief executive

Is one of Britain's largest executive car dealers about to become a bigger force in continental Europe? Trevor Finn, chief executive of Pendragon, would like to think so.

He has steered Pendragon into a group selling cars from 108 locations in the UK, with estimated sales of £1.2bn this year. Virtually all of that is British-based. But Mr Finn, who has gradually moved the company from just luxury marques into selective volume brands, recognises opportunities for UK growth are limited.

"We will do more internationally," he says. Unlike the UK, car retailing in continental Europe is a family affair: although some carmakers, notably the French, own their own chains, most car dealers are single businesses, and UK-style quoted chains are virtually non-existent.

Pendragon will steer clear of volume brands: Mr Finn says there are too many dealers in continental Europe and many do not move enough metal to make decent money. "There are 22,000 car dealers in Germany – that's the same as in North America – compared with 6,000 in the UK."

By contrast, he sees considerable potential in upmarket imports. With three Jaguar outlets in Germany, Pendragon has already tested the waters. Its flagship site in Frankfurt looks so lavish most motorists believe it is manufacturer-owned.

"Jaguar is the obvious brand, says Mr Finn. We're their largest dealers in Britain, and already the biggest in Germany." Given Jaguar's ambitious new models plans, sales should grow correspondingly. The new X200 mid-range model – now officially called the S Type – - will go on sale at the end of this year, to be followed by the smaller X400 saloon around 2000.

Germany will be Pendragon's main focus. "That's where we have got to know the ropes, so it makes sense to start there. And there's a succession issue which could create good acquisition opportunities at many family-owned dealerships," he notes.

But Mr Finn does not exclude taking on other franchises or growing elsewhere. The only rule is to concentrate on brands, such as Jaguar, with which Pendragon already has a close relationship in the UK. Don't be surprised if Volvo – for which it is already the largest UK dealer – is next.

Haig Simonian

Fleets and financing

The number of companies operating pan-European car fleets is on the increase as intra-EU trade grows. On this and following pages FT correspondents report on the state of the sector and its prospects

European market is still waiting to be exploited

Companies find that purchasing muscle is not producing quite the expected results, says John Griffiths

Vehicle fleet managers of the growing number of companies operating on a pan-European basis are finding difficulty in exploiting the presumed benefits of the EU single market.

Already, according to estimates by Henley Management College, there are more than half-a-million company cars operated across EU national borders by larger businesses and which thus qualify to be regarded as pan-European fleets. This number is forecast to grow rapidly over the next few years as intra-EU trade increases. Currently it represents less than one-quarter of 1 per cent of a total EU car population which exceeds 200m.

Theoretically, the opportunities for an adept fleet manager to make substantial cost-savings for his company are considerable. Despite the advances of the specialist vehicle contract hire and leasing companies, many businesses still buy their company vehicles – around 50 per cent of UK business cars are purchased, for example.

It should thus be possible for a company to buy wherever in the EU cars are cheapest at the time of purchase – the recent steep appreciation of sterling against EU currencies currently makes the UK one of the least attractive countries in which to buy cars.

It also should not matter whether the cars are right or left hand drive: EU rules prohibit carmakers and their dealers from refusing to supply cars of either specification in whichever country a company chooses to buy. Thus a pan-European company should be able to maximise its purchasing muscle by placing one order for all its vehicles, rather than each subsidiary having to buy its cars separately in each national market.

Ask any large company seeking to follow this route, however, and it is rapidly established that things do not work like that – at least, not yet. Currently Volkswagen, Europe's biggest carmaker, is in the process of appealing the biggest fine ever imposed on a company by Brussels – approaching $70m – after the EU concluded that potential buyers faced obstructions in trying to buy their Volkswagens in what is currently one of Europe's cheapest markets, Italy.

While other carmakers deny strenuously that obstacles exist, the reality has been that cross-border car purchasing, on any scale, remains hedged round with difficulties and delays.

But as the Henley Centre's fleet strategy specialist, Peter Cooke, points out, this is only one of a number of daunting complications for the would-be pan-European fleet operator. Among many others are the potentially disruptive effects, not least on employee morale, of seeking to impose a centralised vehicle management policy which does not take proper account of still widely varying customs, traditions and company fleet legislation within the various EU countries.

Philippe Op De Beeck, managing director of the UK operations of Axus, the Ford-owned international leasing group known as Hertz Leasing until last October, says some of the complexities should be reduced over the next few years. "The introduction of the euro, for example, will definitely make new car prices more transparent across Europe in the next year or two. That should be good for fleet operators because I believe that this transparency will have the effect of levelling down prices, not up."

The process should be helped by next year's scheduled transition of the EU into a completely open market for new cars after more than a decade's limitation of competition by restrictions on the level of Japanese new car sales in the region.

But none of this will do much to alleviate the biggest obstacles to cross-border fleet operations, the differing structures, cultures and taxation treatment surrounding company cars in the EU, says Mr Op De Beeck.

The UK he points out, is the only EU country to tax company motorists on their business, rather than private, mileage. In contrast, Germany assesses the annual private benefit of a company car to its driver as 1 per cent of its purchase price, plus a monetary amount arrived at by multiplying the number of kilometres between his or her home or workplace by 180 days of work, and then by DM1.04. "As a consequence, in Germany there is no incentive for the driver to cover unnecessary so-called business miles as in the UK," says Mr Op De Beeck.

Drivers of UK company cars receive tax liability discounts of around one-third if they claim more than 2,500 business miles a year and a further one-third if they can claim more than 18,000 miles.

Variations of the German scheme apply in other EU states such as France and Belgium. Italy has what Howard Thomas, a senior director of another international leasing group, Lease Plan – owned by the Dutch bank ABN Amro – describes as an "operatic sub-plot" of a system, dividing so-called "non-working" days by 365 and multiplying that by the total cost of the car.

Attempts by a company to imposed a centralised fleet policy across national boundaries are also complicated by the existing structure of company car populations and expectations about provision. Only a decade or so ago company cars were a rarity in Spain. Now it is one of the fastest-growing company car markets in Europe, with the level of provision to salesmen already one of the highest in Europe.

Italy has a low company car provision; the Benelux countries uniformly high, accompanied by a maze of government legislation, including strong incentives for companies to run their fleets on "clean" fuels such as compressed natural gas.

Attempts to standardise fleets around certain makes or models through bulk deals with manufacturers can also be fraught with disadvantages. The market image of carmakers can vary widely between countries; a make or model which a UK employee might have no difficulty accepting could well be resented by an employee elsewhere.

Dealing with such disparities, and the employee motivational problems which can arise as a consequence, has opened up a substantial market opportunity for specialist contract hire, leasing and fleet management companies operating across EU boundaries, either as wholly-owned multinational businesses or as partnerships.

In the case of the latter, leasing concerns based in one country share the contacts and knowledge of local conditions of "partner" companies in one or more other EU states. In so doing, such companies claim, they can adequately serve the needs of pan-European fleet operators.

The substantial resources needed to set up effective, wholly-owned international leasing companies to date inevitably has meant relatively few operators in the field, such as Axus, Lease Plan, and GE Capital, part of the giant General Electric industrial group of the US.

All three claim rapid growth in their pan-EU activities, mainly through acquisitions of local leasing companies giving them instant access to knowledge of the opportunities and complexities of each local market.

Lease Plan's Mr Thomas says that trends in company car provision are also running in favour of the specialist industry. While the specialist leasing industry already has the lion's share of contract hire and leasing business in the UK, the carmakers themselves traditionally have had a much stronger grasp of business car markets in countries such as France and Germany, which have major indigenous manufacturing industries and where loyalties to nationally-produced vehicles can be strong.

Increasing awareness by workforces in such countries of the more liberal company car policies that apply in others – such as the UK – is inevitably breeding some discontent at the stranglehold such big manufacturers have tended to have on their domestic company car markets.

The manufacturers, however, increasingly are acknowledging the trend and adapting their own activities to suit, points out Alexander Weissleder, managing director of Daimler-Benz's UK-based finance subsidiary, Daimler-Benz InterServices, Debis, which has 500,000 vehicles on its books in western Europe and expects to claim 100,000 fresh contracts this year, has already set up its own "all- makes" leasing operations to counter the independent specialists. Others, such as the VW group, are well down the same road.

Company car here to stay

In many markets a vehicle is part of an employee's pay package, writes Martin Derrick

There is a new breed of purchasing executive in larger companies who, having squeezed the maximum savings by streamlining purchasing of raw materials and direct operating costs, are now looking longer and harder at their indirect expenses such as travel and company cars.

But if the company car is coming under threat, it is not going to disappear in the short or even medium term, either in Britain or in the rest of Europe.

Figures from market research company Market Line show that in Britain there are now more than 3m company cars on the road, and it estimates that by 2001 there will be a 10 per cent increase to 3.3m. Market leader Germany will see its company cars increase from 3.77m in 1996 to more than 4m in 2001, and similar percentage increases are expected in all Europe's leading car markets and even greater ones in less developed markets.

Overall, it is expected that Europe's company car fleet will increase from 13.87m in 1996 to 14.73m by 2001.

"The corporate car undoubtedly represents a growing business in Europe," says Howard Thomas, managing director of Lease Plan UK, part of Europe's largest vehicle leasing company.

"In markets such as France company cars are increasingly becoming part of the reward package, though there are still enormous differences from country to country in Europe in respect of entitlements, and also in respect of the sort of cars executives drive.

"The French tend to drive French cars and the Italians Italian cars, so there are big nationalistic differences in various markets. In terms of costs, it is well known that cars have different price tags in different European countries and there is also very little common ground in terms of tax and the deductibility of value added tax, so not even the advent of the euro currency will make the cost of driving an identical company car exactly the same in different countries."

Despite these differences, leading clients are increasingly seeking a single leasing company to represent them and to manage their fleets in all European markets in which they operate. "They want to establish standard reporting and measuring of fleet costs in all markets and to concentrate their buying power," says Mr Thomas. They want to work with a single supplier and they want to receive a single invoice for their fleet costs. In short, they want us to look at Europe as a single entity in order to maximise the cost benefits of dealing on a pan-European level.

However, the nationalistic differences in different markets makes this difficult to achieve.

"If you were to rationalise your purchasing policy so that right across Europe your fleet consisted only of Fords or only of GM vehicles, then that would maximise your savings in a pan-European sourcing deal," says Jonathan Burr, UK managing director of GE Capital Fleet Services, globally the world's largest car leasing operation. "But a policy like this is hard to impose if your French executives insist on driving Citroëns and the Italians Alfa Romeos," he says.

"Having said that, it is still possible for multinationals to drive down their total fleet costs by between 5 and 10 per cent in Europe by standardising procedures and products in different markets.

"Of course there are differences in taste, in expectations and in the tax treatment of company cars, but in reality the degree of difference is relatively small. It is our job to take that complexity on board as our problem and to make happen whatever our clients want to achieve.

"There tends to be a fog of local interests that has slowed the development of true pan-European leasing deals, but our job is to cut through that fog and find ways of providing the same basic package in all markets. Airlines manage to operate global services while taking account of local tastes in terms of menus and the like. We can do the same for our multinational clients."

That message, however, seems not to be getting across loud and clear. For if further predictions from Market Line are to be accepted, the majority of companies will continue to operate their fleets individually, will continue to buy their cars outright, and will continue to make local fleet management arrangements.

For while a significant expansion in the total size of Europe's company car fleet is predicted up to 2001, the proportion of company cars purchased outright as opposed to acquired under a finance or operating lease is only expected to fall very slightly.

In the UK, for example, outright purchase which at the end of 1996 accounted for 42 per cent of company cars is expected to still account for 41 per cent in 2001. The picture is the same in Germany (67.6 down to 61.7), France (65.5 down to 64) and Italy (58 down to 55.5).

Mr Thomas says: "It is our job to demonstrate that significant cost savings are available to companies adopting a rational fleet policy and maximising the benefits of working with a major fleet specialist. I believe the advent of the euro will help by making costs in different markets more transparent and by accelerating the benefits of pan-European leasing. But it is not going to happen overnight."

Contracts continue growth

The single currency will boost lease business, says Richard Feast

The whole of the UK motor industry was bracing itself for special attention when the Chancellor of the Exchequer stood up to deliver his Budget in March. The anticipated additional taxation on those with company cars could have had a profound effect because of the sector's significance to the entire manufacturing and distribution chain.

As it turned out, Gordon Brown's focus as far as vehicles and transport were concerned involved mainly fuel costs. The vehicle fleet and finance sectors were much relieved – though they know they are still not in the clear.

The government's imminent White Paper (policy document) on integrated transport may yet impact the complex structures which hold together the business car market. It is already in a state of flux thanks to the growing appeal of "usership" contracts rather than conventional ownership.

At the same time, businesses requiring large vehicle fleets are increasingly delegating the procurement, financing and maintenance of them to specialist outside contractors. This has the effect of making big leasing companies even bigger – a fact which makes several UK companies well placed to take advantage of the growing internationalisation of the sector.

This distinct swing away from outright or hire purchase was given added impetus by the 1995 decision to allow lessors to reclaim VAT from a car's purchase price, thus permitting lower monthly rental payments. The fleet sector's take-up on contract hire grew by about 9 per cent last year to stand at 45 per cent of total.

"The leasing and contract hire sector continues to grow, and I don't see that changing soon," says Mike Stuckey, Ford's manager of contract hire and leasing.

A survey of members' attitudes to be published shortly by the British Vehicle Rental Association identifies another change. "The business-wide trend towards outsourcing of non-core activities has also helped to improve contract hire numbers," it says.

"This sort of arrangement allows companies to concentrate on their real business by transferring to external professionals the provision of services not core to their revenue earning."

About 65 per cent of all vehicle contract hire and leasing in the UK is now handled by outside suppliers. Financial institutions such as Barclays (Dial Holdings), HSBC (Swan National), GE Capital (Avis Lease Contracts), ABN Amro (Lease Plan) and National Westminster (British Car Contracts) are at the forefront of the business these days.

These events, along with the historical competitiveness of UK based car manufacturers and fleet companies in dealing with the business sector, should give them more opportunities in the rest of Europe. Several pan-European leasing agreements are already in place.

The effects of the single European currency (euro) will boost lease business, says Dial. Whatever the official UK position on European economic and monetary union (Emu) leading fleet operators are preparing to conduct business in euros.

"The European Union represents a significant area of growth for the UK fleet and transport industries," says Wallace Stein, managing director of Forward Trust.

General Motors has signed what is believed to be an industry first – a three-year preferred supplier agreement with Honeywell Control Systems for 12,000 vehicles worldwide. The deal covers Vauxhall in the UK, Opel in continental Europe, Saab in Scandinavia, Cadillac and Chevrolet in North America, and Holden in Australia.

Even so, according to a recent survey by Lex Vehicle Leasing, two-thirds of all fleet managers in the UK source their vehicles from local dealerships.

Meanwhile, earlier changes to personal taxation rates in the UK are prompting more drivers to opt out of company car schemes. They are no longer the tax-avoidance tools they once were, and in certain instances are a disadvantage. An estimated 90,000 former company car drivers last year elected to take out private contract purchases.

Fleets and financing

Britain's crowded motorways are a headache for drivers. Drivers of company cars may well need a clear head soon to work out the most advantageous method of vehicle ownership Photo: NTI

Tax could open door for leasing

The UK government may have some shocks in store for company car drivers, writes Kenneth Gooding

Some three-car families in North America have not owned a car for years. They rent them.

The trend towards renting, or – if you want to use the fancier term – leasing, could take hold in the UK because of the way the government seems determined to tax "perk" company cars off the road.

Or that is the theory being expounded by some providers of company cars.

They suggest that, although Gordon Brown, the Chancellor of the Exchequer, in his March Budget appeared to be relatively kind to drivers of company cars, he almost certainly was being careful not to upstage the White Paper on an integrated transport policy in which the government will show its true intentions.

This White Paper, somewhat delayed and not expected to be published until next month, could contain some nasty shocks for "perk" car drivers.

Will those shocks be strong enough to prompt a noticeable shift away from corporate cars to private motoring? After more than a decade of successive governments tightening the taxation screw, most employees prefer to pay the personal tax and keep the company car.

This confounds sceptics who suggested that, particularly for executives receiving their cars as a "perk" and part of their remuneration package, the popularity of the company vehicle would fall as its tax treatment became less lenient.

What the sceptics failed to understand is the benefit and importance of hassle-free motoring. Employees place a substantial value on their ability to hand over all their car-related problems and responsibilities to a specialist third party.

But suppose similar, hassle-free packages could be offered to employees wanting to take cash as an alternative to their company car? This is exactly what some contract hire organisations have been working on.

Lex Vehicle Leasing, the UK's biggest contract hire company, more than a year ago launched a PCP (personal contract purchase) scheme called FreeChoice which is being offered to employees of companies that are already its big fleet customers. To avoid tax problems, Lex took specialist advice and had the scheme signed off by the Inland Revenue, although it recommends that anybody taking it up checks first with the local tax office.

The idea is that an employee can pay a fixed monthly fee for 24 or 36 months and can then either make a final payment and keep the car or else hand it back and start a new contract.

Similar schemes are being offered by other companies. For example, Lease Plan UK has Freedomdrive. This hassle-free package includes all the benefits of corporate contract hire including accident management, a replacement vehicle, maintenance and even insurance, all for a fixed monthly rental. All that is required by the driver is to fill the fuel tank every now and again and to keep the car clean.

It is not cheap, however.

LVL gives two examples of PCPs for three years at 20,000 miles a year, with full maintenance and RAC rescue cover. For a BMW 318i manual saloon the cost is £478.06 a month. For an Audi A6 2.4SE saloon, also manual, it is £647.51 a month.

This means an employee would have to spend £5,736.72 a year out of taxed income for the BMW and £7,770.12 to rent the Audi. Assuming that the employee is paying 40 per cent income tax, the company needs to boost his or her salary by £8,031 a year to cover the cost of the BMW and by £10,878 for the Audi.

Whether companies would be willing to stretch to this is a moot point. At present most give only the equivalent of what they save by not providing a leased car.

Howard Thomas, managing director of Lease Plan, says contract hire for individuals is bound to be more expensive than for companies – possibly one-third more – partly because of the extra problems involved for organisations such as Lease Plan.

Exaggerating slightly, he says: "To start with, employees will want to test drive a hundred cars before making a choice." Insurance payments are another handicap, he says. Company fleets, with their big buying power, can balance the bad drivers with the good. Individual contract hirers are judged on their individual records.

It will also take a big cultural change in the UK for people to understand they can change to a new car every two or three years without ever owning the asset. "We are a country of owners in the UK. Few people are mentally prepared for the idea of renting. It will need a change of mindset."

Steve Carman, general manager of public relations at LVL, suggests that this change will take place gradually as the government increases taxes on "perk" cars over the next five years. "This will encourage a change in the way cars are sold and encourage a switch from contract hire to PCP."

In March Mr Brown provided a foretaste of what is to come by slipping in a hefty tax increase for those employees who are supplied with free fuel by their companies. From April 6 there was a 20 per cent increase in the scale charges used for assessing income tax on this benefit.

The Chancellor also said he was to introduce a lower starting rate for "road tax" (vehicle excise duty) for "less polluting" cars, but has still to go into details. "It will be interesting what is considered a more fuel-efficient car," says Mr Carman. "Will it be one with a small engine or one that does more miles to the gallon? How will fuel efficiency be measured?"

Many observers expect the government at some point to start taxing employees on the benefit of having a parking space provided by his or her company. There have also been suggestions that the White Paper will give details of how the government intends to replace existing business mileage discounts with discounts for driving fewer private miles in company cars – this change would be aimed particularly at the vast majority of company car drivers who need the vehicle as a tool of the trade.

Mr Carman suggests: "The White Paper will obviously focus on fleet and company cars and companies will begin to ask themselves: 'Why do we have them?' It will get companies asking questions about their company car policies."

Share of market is rising

Fleet sales of new cars in France are bucking an otherwise gloomy trend, says David Owen

In France, 1997 will be remembered as a dreadful year for new car sales – a year in which registrations plunged to their lowest level in more than 20 years, reflecting the expiry of incentive schemes that inflated demand artificially until late 1996.

But it was also a year – fortunately for manufacturers – when fleet sales comprehensively bucked the gloomy overall market trend.

Precise figures are difficult to establish, but the consensus among experts seems to be that fleet sales of new cars and small utility vehicles accounted for about 30 per cent of overall registrations of 2.03m vehicles in France in 1997.

Yves Guittat, editor-in-chief of *L'Automobile et l'Entreprise*, a journal specialising in the fleet market, puts last year's fleet sales at approximately 609,000, split 60:40 between cars and utility vehicles. This was an increase of just over 2 per cent on the previous 12 months, in stark contrast to the 17.8 per cent decline in the figure for overall registrations, which had stood at 2.46m in 1996, according to the Comité des Constructeurs Français d'Automobiles.

Le Journal de l'Automobile, another trade publication, puts the market for what it terms vehicles for professional use at 638,400 units, an advance of 0.65 per cent on 1996 levels. Either way, the pattern is similar.

In terms of financing, Mr Guittat divides the market into three segments. About 40 per cent of vehicles, he says, are simply purchased, generally on credit; a further 20 per cent are financed through what the French call "crédit-bail" – a form of rental with the option to buy at the end of the contract; the final 40 per cent are straight long-term rentals. Some 80 per cent of long-term rentals include service features such as servicing and maintenance, tyres and the possibility of a replacement vehicle.

In recent years, long-term rentals have been gaining ground over "crédit-bail"-type contracts in a trend attributed by Mr Guittat to tax considerations. A few years ago, he says, it was possible to recover a portion of VAT through "crédit-bail" deals. "This possibility has disappeared."

He says competition in the long-term rental segment has become very sharp in recent years as car manufacturers and a number of banks have started subsidiaries. Figures supplied by the Observatoire de l'Automobile indicate that Diac Location, a subsidiary of Renault, the French carmaker, had the biggest parcel of long-term rental vehicles at the end of 1997, followed by Avis Fleet Services, Peugeot Parc Alliance, Arval, Lease Plan and Citroën Partenaire Entreprise.

Renault, the French carmaker, attributes long-term rentals' popularity to an increased tendency by French companies both to include a car in employees' salary packages and to contract out their fleet management function. France Telecom, the telecoms operator, recently entrusted the management of its fleet to four companies – Arval, Avis Fleet Service, Lease Plan and Europcar Lease. This quartet is to split operational management of the 46,000 vehicles "by geographic sector".

Mr Guittat says the tax burden on the use of company cars in France is heavy, partly due to a specific annual levy of FFr6,880 or FFr14,800, depending broadly on size. He says the value of the vehicle can only be amortised up to FFr120,000. Efforts to standardise the different European regimes could lead, eventually, he feels, to lower taxes on vehicles in French fleets and a further increase in the proportion of fleet sales in the overall market.

Debis financial services operations are run from headquarters on the reconstructed Potsdamer Platz in Berlin Photo: AP

Cost pressures are felt

Germans are discovering an attractive alternative, says Graham Bowley

Germany has one of the biggest markets in continental Europe for business leasing and contract hire deals. The fleet management market is small but growing rapidly.

"The fleet management market will grow very strongly in the next five to six years," according to Stefan Borner, head of product management and consulting at Debis, the financial services arm of Daimler-Benz.

Mr Borner says there are at present around 35,000 to 40,000 cars under fleet management in Germany, out of a total new business car market in the country of around 4.5m vehicles. "This is a very small percentage of the total market and it is therefore expected to grow quickly," he says.

Debis' car fleet management service now has around 23,500 cars under its wing. Debis estimates that the German fleet management market has the potential to grow to around 2m cars per year, in fleets with more than 10 cars.

One factor that is driving the growth of the fleet management market in Germany is the increasing cost pressures that are being felt by the country's corporate sector. German companies are finding that car leasing and service deals offer them an attractive means of reducing their costs. As a result, they are finding it an appealing alternative to the outright purchase of company vehicles.

But the growth of the market is being driven by a further factor. Fleet management allows companies that generally would not concern themselves with vehicle services to concentrate on their core competences while at the same time retaining access to a well-maintained company car fleet.

Consequently, they are able to exploit the fleet managers to obtain a full range of care for their fleets. In this respect the growth of the market is part of the trend towards outsourcing, which was established earlier in the UK but which is catching on quickly elsewhere in Europe.

"The main reason for growth is the shift of high-cost administrative work to external companies, which means fleet management," another spokesman for Debis said. The type of company that uses fleet management is one that has more than 50 cars, the company thinks.

A further reason for fast growth is the highly-imaginative and attractive financing programmes and support services concocted by the leasing industry which is boosting the company car market. These innovative deals have tended to originate in the UK, but they are now being exported to the other European countries, including Germany.

But the increasing attractiveness of the programmes are not simply due to financing. The advice and services offered to companies is also becoming more and more sophisticated. "Our job is to advise what is best for the company," says Mr Borner.

According to a report by the Economist Intelligence Unit published last year, "these financial packages are spreading to all European countries, offering an alternative to some forms of purchase". The report adds: "Contract hire is the newest of the forms and has not been fully accepted in many countries. However, it is also the fastest-growing."

Professional independent fleet managers such as Debis are also benefiting from the complexities companies face in managing cross-border fleet operations. Increased European integration is boosting the trend towards companies having cross-border fleets, but this throws up its own particular difficulties.

As a result, even where there remains a strong tendency for companies to buy and manage their own fleets, the companies are having to turn increasingly to fleet managers who have the experience to deal with complexities such as legislative and cultural differences.

Last year Ecatra, the European vehicle and renting leasing association, estimated that more than 5m cars were the subject of business leasing and contract hire deals in the 16 principal countries of western Europe.

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User-chooser's guide – on a Clapham street

Want to know which cars are tops in corporate fleets? Kenneth Gooding says forget official figures... just take a look in south London's Yuppie-land

There's a street near Clapham Common, in the heart of south London's Yuppie-land, that is ideal for judging which cars are doing well in corporate fleets.

The houses there are substantial, ideal for bringing up a family, and increasingly expensive. But they were built before town planners had any idea that housewoners would also have their own vehicles. Consequently, the gutters of this particular street are littered with millions of pounds worth of gleaming cars, mainly provided by corporations.

This is also user-chooser land. The residents are young merchant bankers, professionals such as lawyers and accountants, with a sprinkling of commodity and currency traders to add some spice. There are people who actually know how to develop and manage computer networks. All these are usually given their pick of a company car rather than have the corporation's choice imposed on them.

Three or four years ago it seemed that many of the Clapham residents had suddenly become enraptured by huntin' shootin' 'n fishin' and field sports generally because a remarkable selection of four-wheel-drive vehicles were suddenly jockeying for parking space.

Today the street is suffering from an outbreak of German measles. There has usually been a good selection of BMWs and Mercedes models to inspect, and now they have been joined by Audi 4s and 6s, and by new-shape Volkswagen Passats.

Once upon a time it would have been possible to ask the Society of Motor Manufacturers for statistics to show just how accurate a picture of the user-chooser car market this Clapham street is providing. However, the SMMT no longer makes public statistics about individual models – except for its highly instructive list of the top 20 best-selling car ranges in the UK.

Nevertheless, there are others monitoring the car market who can provide evidence about the trends. For example, Mark Norman, editor of the CAP Monitor, part of the used car valuation group which publishes the motor trade's "black book" prices guide, says: "Anything German is doing well at the moment."

He points out that in the "upper medium" segment of the market, dominated by fleet favourites the Ford Mondeo and Vauxhall Vectra ranges, "there are no bad cars. There is little difference in performance or specification and so selection of a particular model has much more to do with brand perception than anything else. And this helps the Germans."

Ironically, lack of immediate availability can help improve this "brand perception". The VW Passat, for instance, seemed even more enticing to some company car drivers because there were so few available after the new model was launched.

According to VW there was only a slight delay – caused by the need to sort out some technical hitches with right-hand-drive models – between the announcement of the new Passat in November 1996 and its UK launch in March last year. However, the car met with huge success throughout Europe, and VW could not keep pace with demand.

The waiting time for delivery increased to more than six months. VW says it is now down to a more reasonable 12 to 14 weeks in the UK, depending on specification.

VW's upmarket sister company, Audi, says it can usually meet UK orders in eight weeks, unless the specification is very unusual. It expects demand for its new models to boost total sales in the UK from 35,500 last year to between 37,000 and 40,000 in 1999.

Steve Carman, general manager, public relations, for Lex Vehicle Leasing, says: "The Audi 4 has really captured the imagination of user-chooser drivers." Also, the VW Passat jumped into the top three purchases by LVL in January and February – and LVL claims to be the UK's biggest contract hire specialist, buying 30,000 vehicles a year and with 94,000 on the road.

"People often want something different from the best sellers, the Vectra and the Mondeo, even though the Mondeo is a tremendous driver's car now," he says. Not only the German makes are benefiting from this desire: the Peugeot 406 is also doing very well.

On the German front again, LVL experienced big demand for the last of the old-shape VW Golfs, and the BMW 3-series is still highly sought after even though a new version is being launched in the autumn. Mr Carman suggests that supplies of the new version are likely to be limited for a while. "Who will user-choosers turn to? The Audi 4 should benefit."

He also confirms the four-wheel-drive boom is slowing, although this might have been artificially emphasised for a while by a big drop in Land Rover sales until the new Freelander was launched. "The Freelander has also captured the user-choosers' imagination."

User-choosers are becoming more important to company car providers. According to Monks Partnership, the remuneration specialists, last year there was a noticeable increase in the number of companies offering employees a choice of "any car". Also, the percentage of companies offering "no choice" has decreased at all levels, particularly at the sales representative level.

Meanwhile, it is still possible to glean useful information about who are the winners and losers in the company car market from the Society of Motor Manufacturers and Traders statistics. The SMMT calculates that, of the 2.17m new cars registered in the UK last year, fleets with over 25 vehicles, accounted for 46.92 per cent and business users (under 25 vehicles) a further 6.99 per cent. This left only 46.09 per cent to be acquired by private buyers.

Ford models took top three places in the SMMT's table: the Fiesta range had a 5.5 per cent share of the total, the Escort 5.23 per cent, and the Mondeo 4.94 per cent. Vauxhall followed Ford with the next three models in the list: the Vectra range was in fourth place (4.32 per cent), the Astra, 4.12 per cent, and the Corsa, 3.68 per cent.

That search for something different by user-choosers continues to hurt the two manufacturers, however. Ford's market share last year slipped from 19.6 to 18.5 per cent and Vauxhall's was down from 14 to 13.6 per cent. Rover models also lost market share, from 10.9 to 10 per cent, while Peugeot moved up a little, from 7.6 to 7.7 per cent.

All these manufacturers assemble cars in the UK, but the requirement for a car to be "British made" is becoming less important to corporations, CAP's Mr Norman says: "You could make it on the moon and it would still sell – if it was a good car."

The car in front probably belongs to...

"The car a company supplies to you gives an immediate indication of how much your work is valued relative to that of your colleagues. It also communicates to others in the business world your standing and therefore how you ought to be treated."

Peter Marsh and Peter Collett in 'Driving Passion The Psychology of the Car'*

This was written 13 years ago, but it still is true. So what does your company car tell people about you?

Starting at the top, chairmen and chief executives frequently have complete freedom of choice when selecting their company car. However, those companies that allocate cars to people at the very top of the management tree usually specify Jaguar and Daimler models.

For senior managers, BMWs are the most likely to be specified, while Fords come top for middle managers. Vauxhalls are prefered for area sales managers and sales representatives, according to Monks Partnership, the remuneration specialist.

It is not surprising that Monks found "choice [of a company car] narrows as status in the company declines".

Some 174 companies took part in Monks' "Company Car Policy 1998" survey**, supplying information in December and January. Where appropriate, the statistics were augmented by data from Monks' main UK Management Pay Databank, which holds information collected from 674 companies last year.

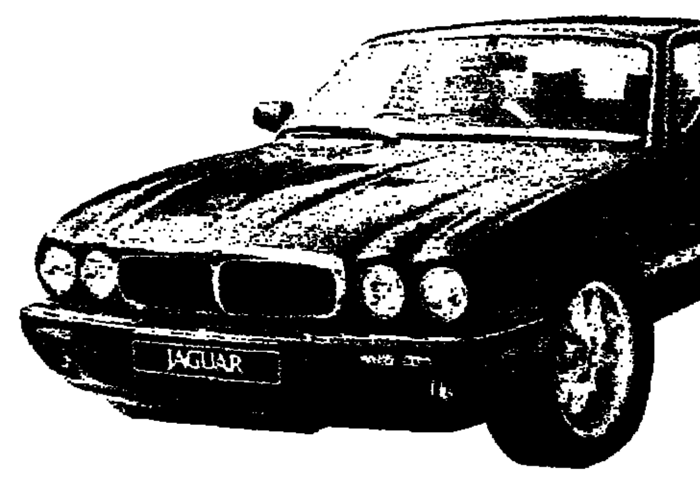
Monks' research shows that the bigger the company the more expensive are the cars it will make available. "In general, the car provided by a parent company is likely to be more expensive than one provided in a subsidiary at the same job level."

Although Monks admits "our experience shows that it takes about two years for new models to work through into the lists, particularly at senior levels", its research gives a reasonable indication of who is driving what car in a wide selection of UK corporations. Most of the information accompanying the photographs below is drawn from the survey.

** Published by Jonathan Cape in 1986; £10.95*

*** Monks Company Car Policy UK 1998, Monks Partnership, The Mill House, Wendens Ambo, Saffron Walden, Essex CB11 4JX; £180.*

Chairman / chief executive's car



Most chairmen and chief executives have a free choice of company car. Nevertheless, there is no doubt that British companies prefer to see their top managers in Jaguars or Daimlers. According to Monks, 62 per cent of the corporations taking part in its survey gave their chairmen and chief executives the choice of "any car". However, 30 per cent of those that specified a "preferred manufacturer" suggested Jaguar, well ahead of the main rivals, Mercedes and BMW. Each of these German brands was the preferred manufacturer at 12 per cent of those companies allocating a chairman's car. BMW is mentioned by 19 per cent in the chief executive's car category, with Mercedes getting 16 per cent. In the past, the Jaguar XJ6 3 2 S was the most popular chairman/chief executive's car. Jaguar says that, since this model went out of production, its most popular model with company fleets is the one illustrated here, the XJ8 4.0-litre with a V8 engine

The other director's car

Jaguar has much less of a lead when corporations are allocating cars to other directors. These executives also have less freedom of choice only 5 per cent of companies say directors can have "any car". In the Monks' survey, 21 per cent of corporations listed Jaguar as the "preferred manufacturer" for directors, while 20 per cent went for Mercedes and 19 per cent for BMW. Audi also makes enough impression in this category to rate a mention as 5 per cent of the companies listed it as "preferred manufacturer". Mercedes E-Class saloons (pictured) dominated the list of preferred cars from this manufacturer whereas among the BMW models, while the 5-series was the most mentioned, the 7-series was not far behind. The A6 is doing best for Audi. Monks says a comparison of those companies that took part in both the 1997 and 1998 surveys shows the number offering a choice from a prescribed list of models has decreased slightly since 1997 for directors and senior managers.

Report by Kenneth Gooding

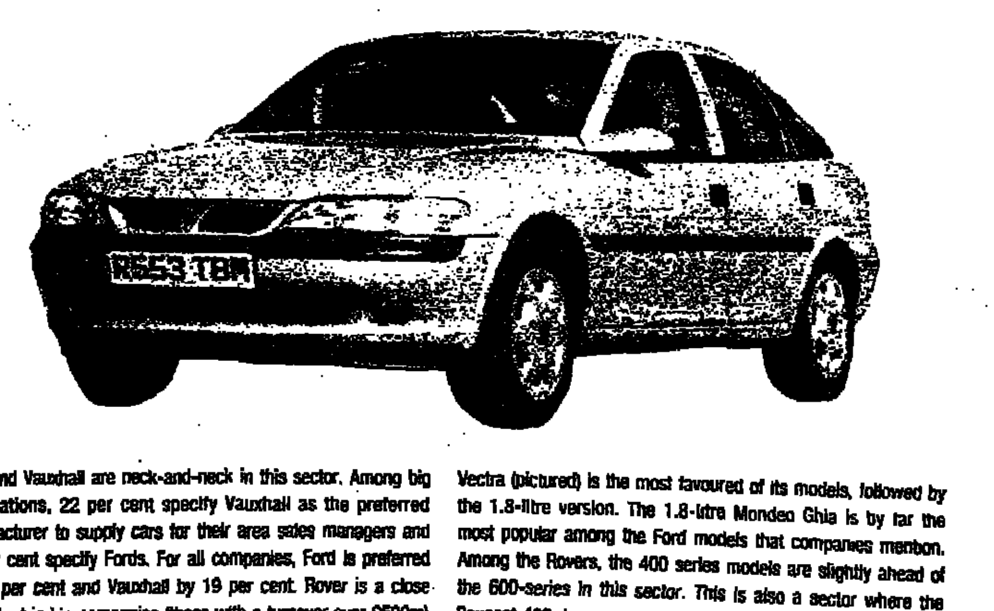
Senior manager's car

This is the sector where the size of the company you work for begins to tell. Monks differentiates between big corporations with turnover above £500m and the others that took part in the survey. Big companies put BMW and Vauxhall at the top of their lists of "preferred manufacturers" for senior managers' cars. Each brand claims the support of 17 per cent of corporations. However, once the smaller companies are taken into account, Ford romps to the top with the support of 20 per cent, ahead of BMW, 17 per cent, and Vauxhall, 16 per cent. Rover, with 10 per cent, and Mercedes, 8 per cent, also feature in this sector. BMW's 5-series (pictured) puts it at the top of the big corporation lists but the smaller 3-series also features prominently. Ford's Scorpio models are mainly responsible for its table-topping performance when all companies are taken into account. The Scorpio's rival, the Vauxhall Omega, does well for that manufacturer, as does the 800-series for Rover.

Middle manager's car

Ford dominates this sector, one in which virtually no executives are given the option of having "any car". Ford is the "preferred manufacturer" for middle managers at 34 per cent of big companies and 27 per cent of all the companies polled by Monks. Rover was way behind in second place with 14 per cent and 13 per cent respectively. BMW ranks above Vauxhall at big corporations, with 13 per cent against 11 per cent, but among all companies the position is reversed. BMW is listed by 10 per cent as the preferred manufacturer and Vauxhall by 12 per cent. Audi appears again, with 8 per cent of the big company votes and 6 per cent overall, while Volvo rates a mention with 7 per cent of each. The 2-litre Mondeos (pictured) are mainly responsible for giving Ford top spot among middle managers. The Rover 600 and 800 series models in particular help to give that manufacturer its second place. Vauxhall's 2-litre Vectra features prominently in the lists, as does the BMW 3-series.

Area sales manager's car



Ford and Vauxhall are neck-and-neck in this sector. Among big corporations, 22 per cent specify Vauxhall as the preferred manufacturer to supply cars for their area sales managers and 21 per cent specify Fords. For all companies, Ford is preferred by 20 per cent and Vauxhall by 19 per cent. Rover is a close contestant in big companies (those with a turnover over £500m) with 18 per cent of them listing it as the preferred producer. The percentage drops to 14 for all companies. Vauxhall's 2-litre Vectra (pictured) is the most favoured of its models, followed by the 1.8-litre version. The 1.8-litre Mondeo Ghia is by far the most popular among the Ford models that companies mention. Among the Rovers, the 400 series models are slightly ahead of the 600-series in this sector. This is also a sector where the Peugeot 406 does reasonably well and more companies specify this range than the BMW 3-series. Audi A4s are often among the preferred cars, as are Volkswagen Passats and Golfs.

Statistics

Pressure for further rationalisation

Western Europe's car and light commercial vehicle plants last year operated at an average of only 71 per cent capacity, highlighting the pressures on the industry for further rationalisation, writes John Griffiths.

However, there were wide variations in plant utilisation. Some facilities, such as BMW's Dingolfing plant producing the 3-Series, operated at more than 100 per cent of theoretical capacity. But others, including Ford's Halewood factory in north-west England, worked at less than 50 per cent of capacity.

The statistics, compiled for a new Financial Times monthly on automotive industry manufacturing*, coincide with another industry round of negotiations on mergers or joint ventures.

By far the most significant of these is disclosure by Daimler-Benz, of Germany, and Chrysler, North America's third-biggest carmaker, that they are considering a full merger. With an estimated value of at least $35bn, it would rank as one of the biggest corporate mergers on record, as well as providing the potential for reducing at least some overcapacity, which remains a world problem rather than merely a European one.

Disclosure by Renault's commercial vehicles arm and Iveco, Fiat's truck and bus subsidiary, that they are to collaborate on bus production and sales, and the takeover of the UK's Leyland Trucks by Paccar, the US truckmaker, have also given fresh impetus to the rationalisation process.

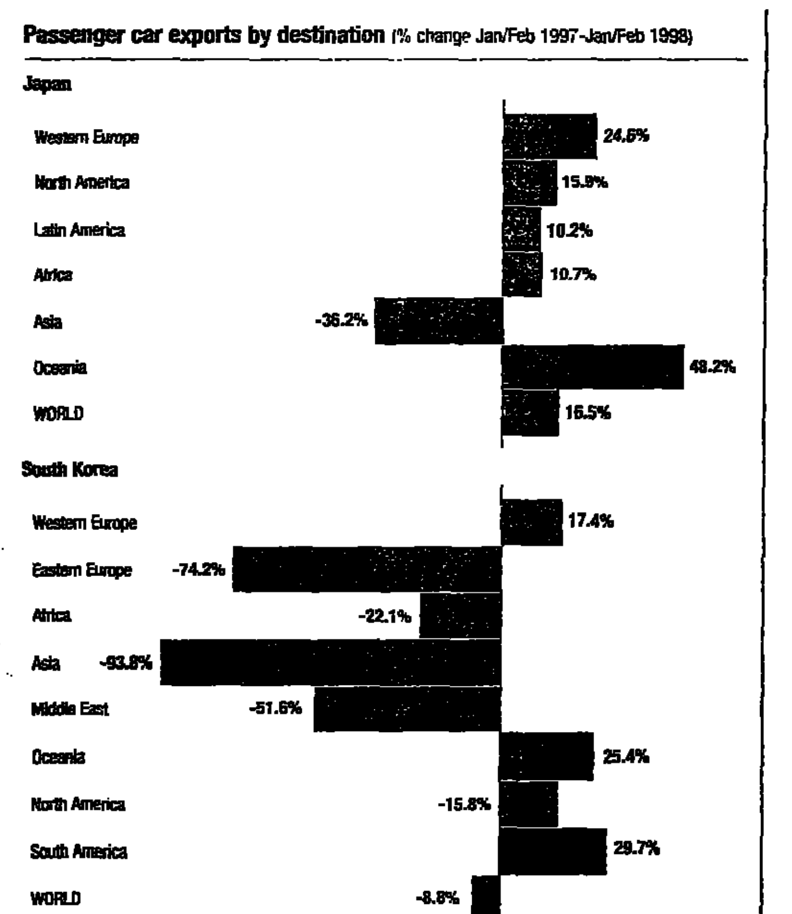
The manufacturing statistics emphasise the current market success being enjoyed by premium brand producers in comparison with some volume producers. Overall, BMW's plants last year operated at 91 per cent of capacity, despite model changeovers. Mercedes-Benz operated at 96 per cent and Jaguar's Browns Lane facility at 87 per cent, also despite model changeovers.

Overall, the West European industry last year had the capacity to build 20,612,000 cars and light commercials, according to the statistics. Yet total output reached only 14,558,619.

* World Automotive Manufacturing, published monthly by FT Automotive, Maple House, 149 Tottenham Court Road, London W1P 9LL. Tel. +44 (0)171 896 2101

Data provided by Marketing Systems (Tel: 00492054 9333350)

Passenger car exports by destination (% change Jan/Feb 1997-Jan/Feb 1998)



Sources: Marketing Systems; JAMA; KAMA

Production of passenger cars ('000)

	1995	1996	1997	1998 (1st qtr)	1997 (1st qtr)	% change (1st qtr 97/98)
Western Europe						
Austria	59	97	91	24	24	0
Belgium	410	385	378	90	98	-8.6
Finland	0	0	2	2	0	
France	3051	3148	3351	888	808	9.9
Germany	4360	4540	4678	1251	1159	7.9
Italy	1422	1318	1583	393	371	5.9
Netherlands	100	145	197	62	44	40.2
Portugal	73	153	186	44	42	5.2
Spain	1959	1942	2010	514	495	3.8
Sweden	388	368	376	93	97	-3.5
UK	1532	1686	1693	452	436	3.5
Turkey	233	200	238	62	47	32.4
Total	13588	13981	14787	3875	3621	7.0
Eastern Europe						
Bulgaria	2	1	0	n.a.	n.a.	n.a.
Former CSFR	213	270	362	n.a.	n.a.	n.a.
Former USSR	893	891	1105	n.a.	n.a.	n.a.
Former Yugoslavia	95	98	107	n.a.	n.a.	n.a.
Hungary	51	63	75	n.a.	n.a.	n.a.
Poland	391	442	484	n.a.	n.a.	n.a.
Romania	92	117	124	n.a.	n.a.	n.a.
Total	1735	1881	2258	n.a.	n.a.	n.a.
North America Free Trade Association						
US	6342	6070	6007	1366	1453	-6.0
Canada	1365	1299	1333	371	363	2.4
Mexico	700	816	873	200	190	5.1
Total	8407	8185	8252	1937	2006	-3.4
Latin America						
Argentina	227	269	366	72	63	15.3
Brazil	1303	1467	1676	317	376	-15.8
Chile	5	5	4	n.a.	n.a.	n.a.
Colombia	48	52	59	n.a.	n.a.	n.a.
Uruguay	5	3	5	n.a.	n.a.	n.a.
Venezuela	43	34	77	n.a.	n.a.	n.a.
Total	1630	1830	2188	n.a.	n.a.	n.a.
Asia (excluding Japan)						
China	358	454	511	n.a.	n.a.	n.a.
India	394	477	486	n.a.	n.a.	n.a.
Indonesia	40	35	62	n.a.	n.a.	n.a.
Malaysia	250	326	347	n.a.	n.a.	n.a.
Philippines	73	77	69	n.a.	n.a.	n.a.
South Korea	2003	2265	2308	n.a.	n.a.	n.a.
Taiwan	282	265	255	n.a.	n.a.	n.a.
Thailand	117	138	99	n.a.	n.a.	n.a.
Total	3517	4037	4137	n.a.	n.a.	n.a.
Japan	7611	7864	8485	2200	2271	-3.1
South Africa	223	216	214	n.a.	n.a.	n.a.
Australia	320	338	300	n.a.	n.a.	n.a.
WORLD	37031	38328	40621			

New registrations of passenger cars ('000)

	1995	1996	1997	1998 (1st qtr)	1997 (1st qtr)	% change
Western Europe						
Austria	280	308	275	79	76	[illegible]
Belgium	359	397	396	136	123	11.0
Denmark	136	142	153	41	39	7.4
Finland	80	96	105	34	30	12.9
France	1931	2132	1713	480	437	13.2
Germany	3314	3496	3528	976	869	12.5
Greece	125	143	102	45	42	8.3
Ireland	87	115	137	56	51	10.1
Italy	1745	1735	2112	717	617	16.2
Luxembourg	29	31	32	10	10	3.1
Netherlands	446	473	478	168	150	6.6
Portugal	201	219	214	59	56	5.6
Spain	834	911	1016	272	239	13.6
Sweden	170	180	225	58	51	12.4
UK	1945	2025	2171	623	550	13.1
Norway	91	125	129	29	30	-6.5
Switzerland	268	272	271	68	68	-0.3
Turkey	199	217	295	75	54	38.6
Others	14	14	15	4	4	0
Total	12253	13032	13725	3911	3475	12.5
Eastern Europe						
Bulgaria	11	8	15	n.a.	n.a.	n.a.
Former CSFR	136	228	230	n.a.	n.a.	n.a.
Former USSR	767	841	907	n.a.	n.a.	n.a.
Former Yugoslavia	88	87	80	n.a.	n.a.	n.a.
Hungary	69	75	80	n.a.	n.a.	n.a.
Poland	264	374	481	n.a.	n.a.	n.a.
Romania	88	87	100	n.a.	n.a.	n.a.
Total	1401	1699	1893	n.a.	n.a.	n.a.
North America Free Trade Association						
US	8636	8521	8277	1872	2029	-7.7
Canada	677	670	740	150	153	-1.9
Mexico	117	200	300	102	59	74.0
Total	9430	9390	9317	2124	2240	-5.2
Latin America						
Argentina	275	296	316	82	62	33.3
Brazil	1411	1401	1575	301	366	-17.8
Rest of Latin America	529	540	660	n.a.	n.a.	n.a.
Total	2215	2237	2551	n.a.	n.a.	n.a.
Asia (excluding Japan)						
China	433	390	470	n.a.	n.a.	n.a.
India	394	465	480	n.a.	n.a.	n.a.
Indonesia	38	44	74	n.a.	n.a.	n.a.
Malaysia	228	280	315	n.a.	n.a.	n.a.
Philippines	71	89	75	n.a.	n.a.	n.a.
South Korea	1074	1247	1159	n.a.	n.a.	n.a.
Taiwan	415	383	356	n.a.	n.a.	n.a.
Thailand	163	173	132	n.a.	n.a.	n.a.
Rest of Asia	172	165	209	n.a.	n.a.	n.a.
Total	2988	3236	3271	n.a.	n.a.	n.a.
Japan	4444	4669	4492	1176	1479	-20.4
Middle East	464	499	540	n.a.	n.a.	n.a.
Africa	458	550	525	n.a.	n.a.	n.a.
Oceania	558	583	588	n.a.	n.a.	n.a.
WORLD	34211	35880	36900			

New and updated

Volvo teases the way

Volvo, the Swedish cars group that has been busy in recent years reinventing itself after the collapse of its planned merger with Renault, will set this month's new model bandwagon rolling with its new S80 luxury saloon.

Official pictures of the new car, which will replace the S90 – still better known to many as the old 900 series – have been restricted to just a tease shot of its curvy new rear lights.

The new vehicle, to be launched at Volvo's home base of Gothenburg on May 28, will not only mark a break from the boxy styling of Volvo's former top-of-the-range models, but represents the company's most important launch since the acrimonious bust-up with Renault. In time, the S90's platform is expected to spout a host of derivatives, as well as the successor, in a shortened form, to the current S70 range.

Similarly still under wraps is Jaguar's new mid-sized X200 saloon, which should see light of day at this year's Birmingham motor show in October.

To whet the appetite of the world's motorists, the company recently released a less-than-revealing picture of its rival to BMW's 5 Series. At least Jaguar used the opportunity to end speculation about the model's name. Pictured under cover alongside the former S-Type, the company disclosed the X200 would be take the name of the famous sports saloon, which first went on sale in 1963.

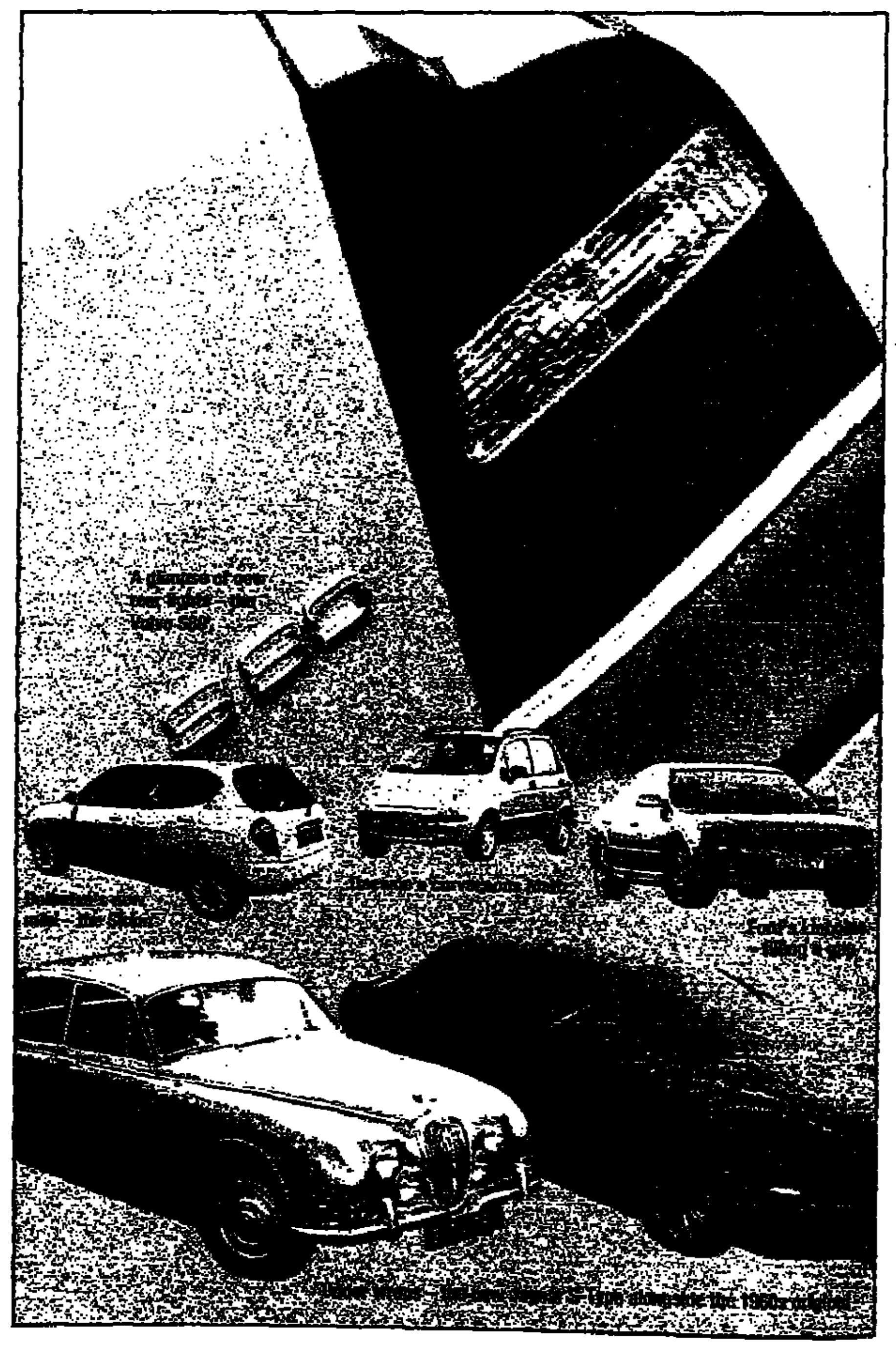
"While the name evokes the spirit of great Jaguars from our heritage, the new S-Type reflects Jaguar's current world class design, engineering and manufacturing philosophy," says Nick Scheele, chairman.

Jaguar's new car shares the same platform as the LS6 and LS8 models premiered by Ford's Lincoln subsidiary at the recent New York motor show. The new Lincolns are planned to spearhead a revival of the group's premium brand in the US and help to fill the gap between the upper-medium Mondeo and the new Jaguar models in Europe once the slow-selling Ford Scorpio bows out in July.

It will not be until September that European drivers get their hands on Daewoo's curvaceous new Matiz, launched in South Korea earlier this year. Designed by Italy's Giorgetto Giugiaro, the company's new city car bears a more than passing resemblance to the Lucciola concept penned by the stylist in 1992 as a possible replacement for Fiat's Polish-built Cinquecento.

Meanwhile, Japanese mini-car specialist Daihatsu is continuing the expansion of its once restricted model range with the new Sirion. The production version of the NCX concept car, shown at the Frankfurt and Tokyo motor shows last year, uses a lightweight new three-cylinder 1-litre petrol engine to claim fuel economy of up to 60mpg.

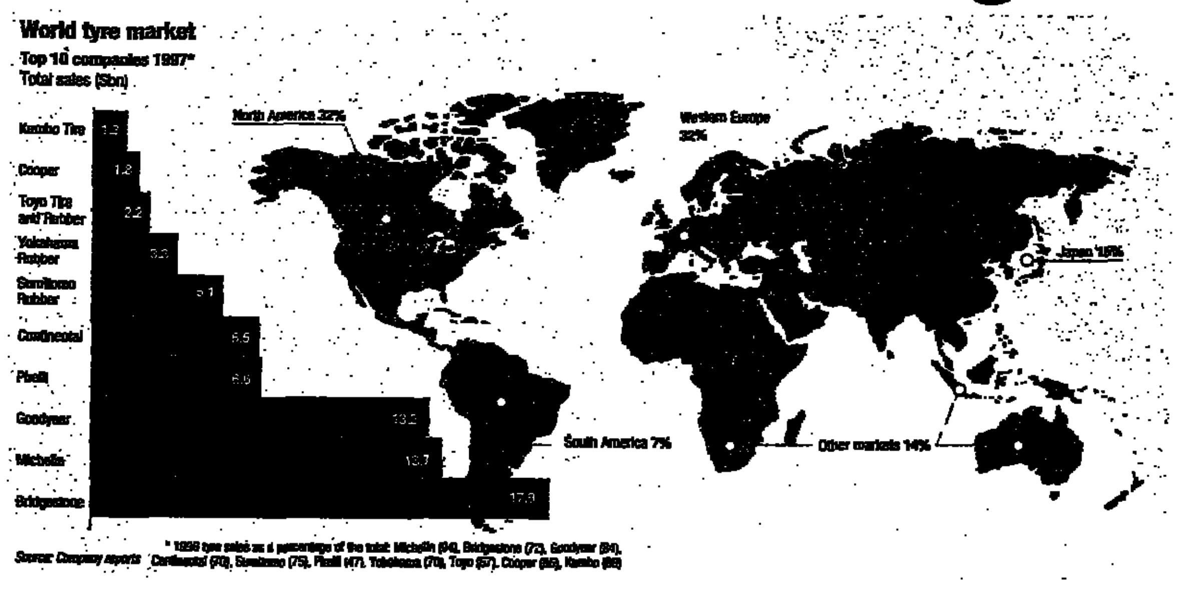
Haig Simonian



Tyres

A technical revolution is waiting to happen

Alliances are likely to be forged alongside acquisition of the smaller manufacturers, says **John Griffiths**



A sense of expectancy is permeating the near-$70bn-a-year world tyre industry.

Restructuring is in the air. If and when it comes it will not be on the scale of the late 1980s, when ailing giants Firestone and Uniroyal-Goodrich were absorbed by Bridgestone and Groupe Michelin respectively. Those acquisitions elevated the Japanese and French groups, at a stroke, to join Goodyear Tire and Rubber as the world industry's "Big Three" with turnovers at least treble those of their nearest rivals.

It is, nevertheless, expected to be significant, involving not just acquisition of more of the second and third-tier players by the biggest groups, but also the forging of strategic alliances and joint ventures.

Revolution, of the technological kind, is also in the air, embracing both products and processes.

For the first time carmakers are being invited openly by a leading tyre manufacturer – Goodyear – to consider designing cars without spare wheels and tyres. A new "run-flat" tyre developed by the US group, capable of running for at least 50 miles at 50mph with no observable deterioration in handling, has made the "spare" obsolete, claims Goodyear.

Other tyremakers have offered "run-flats" before. The key difference with the Goodyear version is that its EMT (extended mobility tyre) can be mounted on conventional wheels.

Other specialised products are emerging: energy-saving "green" tyres with low rolling resistance; "wet" tyres designed specifically to offer extra safety margins in rain; and ever-higher performance tyres in which high-grip, silica-based compounds are taking over the traditional role of carbon black. Marketing trials have even begun of coloured tyres in pursuit of any competitive advantage which might provide an increased margin on sales.

The process revolution is of greater significance than that of the product, at least in terms of the viability of an industry in which intensive competition and low margins are endemic.

Led by the secretive Groupe Michelin with its C3M process, entirely new approaches to the manufacturing process are slashing the time and resources needed to produce tyres, while greatly increasing the flexibility of manufacturing.

The new production technologies mean that those companies able to deploy them can build tyres profitably in batches of as low as a few hundred, not the traditional several thousands.

Michelin's C3M process requires only half the labour and one-tenth the working space of a typical tyre plant at the start of the 1990s. Goodyear is claiming a 135 per cent productivity increase for the "Impact" manufacturing process it is to start introducing at its plants around the world. Continental of Germany, with its MMP modular process, and new highly flexible systems coming on stream at Pirelli plants this year are all poised to turn the competitive screws much more tightly on the smaller, less-resourced players in the industry.

In terms of the industry's restructuring, all eyes are on what happens next in the relationship between Goodyear and Japan's Sumitomo Rubber Industries, the world's fifth-ranked tyremaker. This follows the surprise announcement by Goodyear's chairman and chief executive, Samir Gibara, of a five-year plan to double the company's size and establish clear leadership of the industry.

Neither Mr Gibara nor Sumitomo executives will confirm or deny suggestions of a merger. But the two companies already make and sell tyres for each other in several key markets – and even share test tracks – and in the past few months the ties appears to have been getting closer.

"We must see how the relationship develops; it's a close co-operation and we see it as a building block to the future. But it has to be a win-win situation where we both feel comfortable," said Mr Gibara in announcing Goodyear's intention to become a group with annual turnover of $20bn to $24bn by early next century, compared with sales of $13bn in 1997.

Goodyear is adopting a number of other key tactics in pursuit of that goal, notably setting a target of growing existing business at 5 to 6 per cent a year. That is twice the industry average, and Mr Gibara intends it to be achieved through the introduction of advanced new products and improved distribution systems. Nevertheless, the $7bn to $10bn turnover growth implicit in Goodyear's expansion plan is viewed by analysts as likely to be difficult to achieve without a formal "marriage" to Sumitomo.

Michelin and Bridgestone also make clear they expect more acquisitions and alliances over the next 12 months within the 50 or so companies which account for the vast majority of world tyre output. Neither rules out acquisitions of its own.

The manoeuvrings are going on at a time of uncertainty and further intensifying competition in the industry caused in part by the financial crisis in some Asia-Pacific countries. Goodyear reported a 50 per cent fall in original equipment sales in the region as part of the reason for only slightly higher first-quarter profits of $176.8m.

Michelin's Asian sales, excluding Japan, fell 4 per cent last year and it expects relatively little improvement this year. That Michelin was able to report a 34 per cent increase in net profits for last year mainly reflected one-off items. Its operating profit was only 3 per cent higher, at FFr7.17bn.

Bridgestone has frozen all further investment plans in the Asia-Pacific region, outside of Japan, while it reassesses prospects for the region. But despite the economic downturn in its domestic Japanese market as well, the group still managed to report a 7 per cent rise in parent recurring profits, helped by a weak yen and strong demand in North America and western Europe.

Soaring profits at Continental reflect a more rigorous approach to cost-cutting and the introduction of some of the new manufacturing. Last year's net profits rose by 67 per cent to DM322m. Even the truck tyres division, long lossmaking, finally returned to the black.

Like other leading tyre producers, Conti is also concentrating on positioning itself in markets where there are sound prospects of growth. It has been one of the leaders in setting up low-cost production capacity in central and eastern Europe to cater to burgeoning car output in the region. It has just announced Russia as its next step in the process.

Its MMP flexible manufacturing process is also to be used to give it low-cost access to the other main region of expected long-term growth, South America.

They are goals shared by Pirelli, although the Italian group's presence in that region is substantially more advanced. Pirelli is to invest nearly $350m over the next two years to expand its tyre manufacturing presence in South America's Mercosur economic region.

When fully on stream it will have become Pirelli's biggest tyre factory.

Production lines are transformed

It is now becoming possible to make a profit on small batches of tyres, writes **John Griffiths**

A technological revolution is gathering pace this year within the world tyre industry.

Unlike the introduction of previous major innovations such as radial or low-profile tyres, it will not be immediately evident to consumers. It is a manufacturing process revolution, and it is transforming the economics of tyre production. Its benefits to the motorist will be better and cheaper products.

For much of its history tyremaking has been a multi-stage and highly labour intensive business, involving building up the tyre carcass in layers manually on a drum, with each layer of material often cut to length by hand before going off to be encased in its sidewall and tread compounds and then vulcanised.

The introduction of automated processes has tended to be gradual and partial, such as providing sequenced feeds and auto-cutting of materials to the building drum. At the same time the forecasts of some tyre industry pundits – that tyres of the future would be made simply by squirting the appropriate compounds into an injection mould at the local tyre dealer, for example – have proved hopelessly wide of the mark.

Now, however, the leading tyre companies are lining up to confirm that they are bringing new technology to the industry which is cutting required labour input, increasing productivity by quantum steps and providing a degree of flexibility of which tyre plant managers would have barely dreamed a decade ago. Where commercially viable production once meant continuous output of thousands of a single size and type of tyre, it is becoming possible to turn a profit on batches as small as a few hundred.

At least as remarkable, the industry has not suddenly found collectively one breakthrough manufacturing process from which they can all benefit. Each has been making its own, closely-guarded innovations, with the result that several distinctly different processes are bringing about the transformation. Even after intensive scouring of patent offices has allowed each to gain inklings of their rivals' processes, the mainly separate development paths have continued.

The leading companies in the industry – and the top six between them control more than 70 per cent of the world tyre market – insist that their innovations will allow them to remain competitive with the strongest rival for the foreseeable future. But the developments bode ill for the dozens of smaller players who lack the financial and technical resources to make their own quantum leaps.

The developments are happening in the wake of the first leaks several years ago that the highly-secretive Groupe Michelin had developed a revolutionary process called C3M.

Differing from conventional processes in all stages of production, the heavily computerised system – about which Michelin will still impart no details – requires only half the workforce and one-tenth of the usual production space, with a capital cost said to be less than $15m per 500,000 units of annual capacity. One perceived disadvantage, however, is that it does need new, dedicated facilities.

Several plants have already come on stream in France and the US. The expectation is of a gradual introduction elsewhere in order to minimise the social and employment disruptions implicit in the process.

At the time, the process appeared likely to provide Michelin with daunting competitive advantage – the ability to produce tyres considerably more cheaply than anyone else, and thus enjoy high margins if pricing up to local market levels, or to use some of the extra available margin to increase market share.

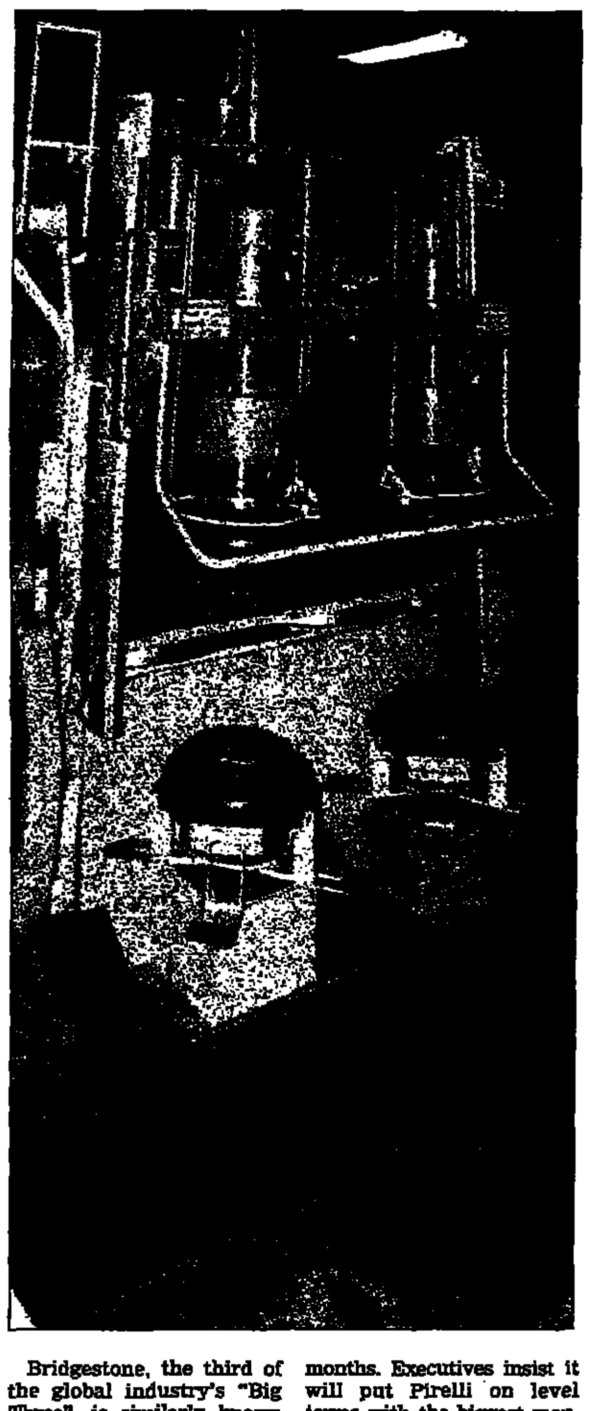
However, Goodyear of the US, once again bent on regaining the world tyre market leadership it lost in the 1980s, has served notice that it is not in the least intimidated by the Michelin system in announcing its own manufacturing technology breakthroughs a few weeks ago.

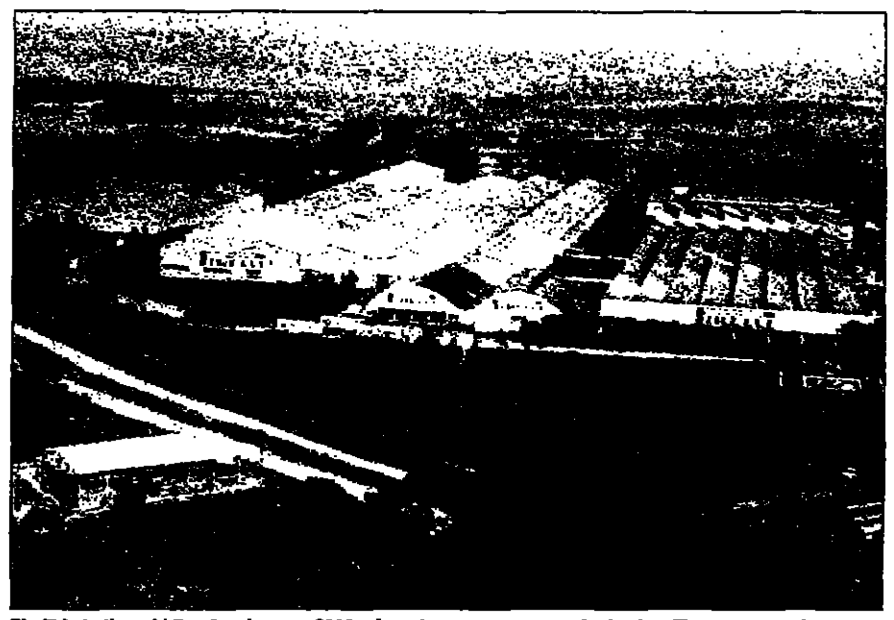
Indeed, the company's chairman, Samir Gibara, in unveiling Goodyear's "Impact" production system, has expressed the view – after looking at some of Michelin's patents – that Impact (Integrated Manufacturing Precision Assembly Cellular Technology) will prove superior to C3M. Not least, it can be incorporated into existing plants at lower investment costs than those of Michelin's system. "It means we can site wherever in the world we like, close to major vehicle producers' plants or even large consumer areas for the aftermarket," says Goodyear.

Goodyear is also reluctant to reveal in detail the technology of its systems. But key indicators of its effectiveness, says Mr Gibara, are that it improves productivity by 135 per cent, halves the number of manufacturing steps, eliminates the cutting and placing of many materials, reduces direct labour by 35 per cent, cuts materials costs by 15 per cent, halves material inventory levels and reduces energy costs.

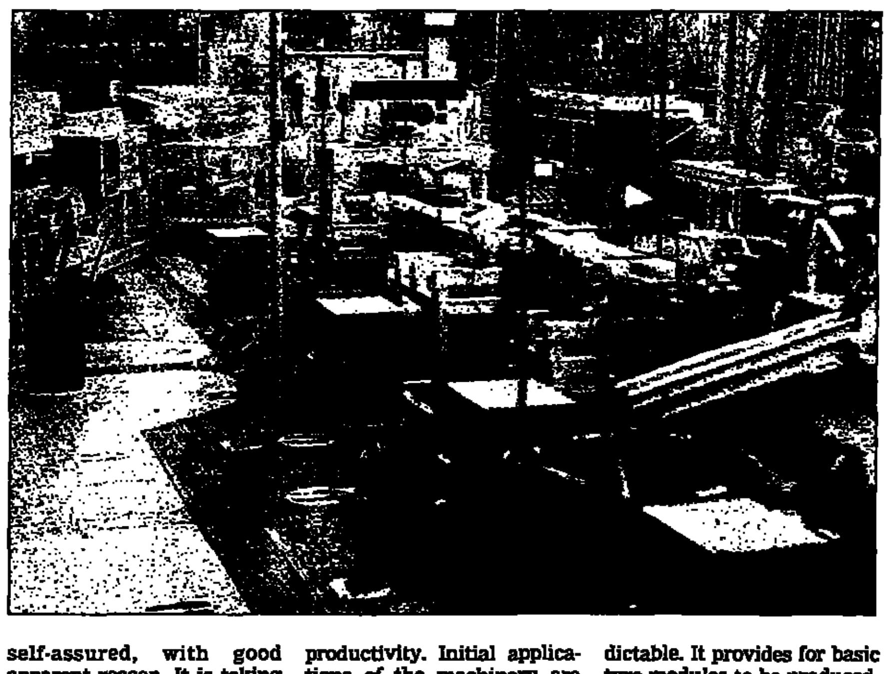
It is no wonder, perhaps, that in terms of employment such process transformation is likened by some industry analysts to a neutron bomb going off – plant and equipment being undamaged, but the human workforce devastated.

Mr Gibara provides at least some reassurance, however: "We will introduce these processes over years, and we hope to achieve some losses through natural wastage and offset others through fast growth."





Pirelli is in the middle of a six-year, $390m investment programme for its Brazilian tyre manufacturing operations, including the introduction of automated systems at its Campinas plant near Sao Paolo to produce the company's first 'world' tyre, the P3000 range, being produced also at six other plants around the world



Bridgestone, the third of the global industry's "Big Three", is similarly known to be well advanced with its own process innovations.

But where does this leave the other three tyremakers comprising the top six – Continental, Pirelli and Sumitomo, each with annual tyre sales of around $3bn to $3.5bn compared with $10bn-plus for Goodyear, Michelin and Bridgestone.

Giovanni Ferrario, Pirelli Tyres' general manager, also professes to be undismayed. He says the Italian tyres and cables group is far advanced with its own automated tyre manufacturing system, which will start coming on stream in the next few months. Executives insist it will put Pirelli on level terms with the biggest manufacturers.

The Pirelli technology has been developed, amid much secrecy, at its Milan research centre. Mr Ferrario says it is designed greatly to reduce both costs and production times, while allowing a wide range of tyre sizes to be built viably in production batches as small as 100.

"I have seen Goodyear's productivity and other improvement figures, and I have seen Michelin's C3M figures as well; I do not think we will be at a great disadvantage," says Mr Ferrario.

Continental is similarly self-assured, with good apparent reason. It is taking a three-pronged approach to transforming the economic basis of its own production.

It has introduced at its main Hanover facility a fully-automated system for producing long runs of standard tyres in basic sizes. The system has little flexibility – but nor does it need it. The lines are geared to run seven days a week, 24 hours a day.

A second system developed jointly with German industrial group Krupp allows a wide variety of tyres to be built with much reduced inventory, a 60 per cent cut in investment costs and what is claimed to be a 100 per cent improvement in productivity. Initial applications of the machinery are being made in the US plants of Conti's General Tyre subsidiary.

It is the third of the approaches, MMP (Modular Manufacturing Process) that is arguably the most innovative, and which Conti also expects to give it good access at low cost to developing world markets such as Brazil where growth prospects are brightest. Conti currently offers some 2,000 different passenger car tyres, of which only 400 are in continuous high-volume demand. The MMP process is designed to cater to the large variety of smaller volume tyres, for which demand can be unpredictable. It provides for basic tyre modules to be produced, initially at plants in Germany, which can be transferred to MMP centres for a variety of final tread applications and performance characteristics.

While not giving details, Conti says the cost of establishing MMP facilities is "very low" as they are physically very small in comparison with a conventional tyre plant.

There are, however, limits to the system. High technology, high-speed rating tyres fitted by Germany's executive and sports car makers will continue to be produced in the conventional manner, say Conti executives.

Tyres

THE US

Goodyear has a pack in chase

Nikki Tait reports on manufacturers' efforts to win a vital share of the market where there is small growth

The tyre industry is hardly one to set many executives' hearts a-fluttering. While it amounts to a $70bn market worldwide, it growth rate is relatively slow – and, as with many components destined for the automotive sector, steady technological improvement has tended to lengthen product lives.

In the US, for example, the Washington DC-based Rubber Manufacturers' Association calculates that US replacement passenger tyre shipments increased by about 2.3 per cent in 1997 over the previous 12 months. It is forecasting an even slower, 1.5 per cent, annual growth rate through to 2003. As for shipments of passenger tyres to original equipment manufacturers, these are expected to show little or no increase over the same five-year period.

Under these circumstances, it is hardly surprising that the industry should have already undergone extensive consolidation. Once-renowned US names such as Uniroyal, Goodrich and Firestone have been absorbed into bigger groupings, and the three global players have emerged: France's Michelin, Ohio-based Goodyear Tire & Rubber, and Japan's Bridgestone. All have relative strengths in their domestic bases, with Goodyear leading in the US, although all are now battling for global market shares.

Goodyear lost its number one spot after Sir James Goldsmith, the Anglo-French financier who died last year, had a tilt at the company in the 1980s. The company, which was forced to load up its balance sheet with debt in its efforts to see him off, has perhaps staked the boldest claim. Its new chief executive, Samir Gibara, has a declared a strategy of reclaiming the global number one slot, and taking sales from about $13bn to $20bn-plus in five years.

But its big competitors are equally determined to undermine Goodyear's leading 29 per cent market share in the US. Bridgestone, through its Bridgestone-Firestone subsidiary, has been aggressively bolstering its North American business by expanding distribution capacity and raising its visibility. It will also bring on stream a new $400m-plus plant in South Carolina next year. This will be capable of producing around 25,000 tyres a day at start-up, with the potential to eventually double that if a second line is added.

Michelin, too, has been increasing and modernising capacity since integrating the Uniroyal Goodrich business in the early 1990s. The company says it has spent about $800m over the past three years.

Much of this competition in the US – as elsewhere – has centred around product development, although not always to great advantage in terms of unit sales. A few years ago, manufacturers put heavy emphasis on the development of all-weather tyres. More recently, efforts have concentrated on developing tyres which will still function when punctured – nicknamed "run-flats" – thus negating the necessity of carrying a spare.

Goodyear, meanwhile, has announced the development of the first all-steel reinforced passenger tyre, effectively replacing synthetic polyester and rayon tyre cord. The company claims that the technology produces tyres more quickly and creates a more effective product. "The most revolutionary breakthrough in technology since the radial" was how its chairman heralded the product – although some analysts described it more modestly as just "significant".

Despite the tussle for market share, there is no escaping the underlying flatness of the US market itself and the difficulty in achieving price increases: Goodyear, for example, saw a decrease in dollar sales in the US during the first three months of 1998, despite higher volumes.

Analysts also fear that the Asian crisis could compound the problems if south-east Asian producers begin to flood the market with low-priced tyres – although, as with other US manufacturing industries, the currency turmoil has also had the beneficial effect of reducing the price of some raw materials.

ITALY

The personal relationship is highly valued

Italy has been slower than many other markets to see concentration of the sector, writes **Paul Betts**

The advent of European economic and monetary union is expected to lead to a price realignment in the European tyre market. But for several more years individual markets will continue to maintain their specific characteristics.

Giovanni Ferrario, the general manager of tyre operations at Pirelli, the Italian tyre and cables group, says the German and French markets, for example, will remain more concentrated than Pirelli's domestic Italian market because "big chains, big buying groups and mass merchandising continues to be much stronger in these countries than in Italy".

Only in the last few months have there been tangible signs of a modernisation and restructuring in the Italian retail and distribution industry which is still dominated by a significant number of small shops. This has also been true of the tyre sector, where Italy continues to have a wide range of small independent dealers in spite of efforts to concentrate gradually the market.

"Italians like to buy from small shops they are familiar with, and in the south of the country the fragmentation is even worse," explains Mr Ferrario. "They like to maintain a personal relationship with the retailer, and that goes for tyres, too."

For a tyre manufacture, and one based in Italy, it is thus impossible to standardise everything. "Although we see ourselves as leaders in the Italian market, we are a global business and our challenge is to define the different level of demand and services in different market situations," says Mr Ferrario.

Italy currently accounts for about 13 per cent of Pirelli's annual tyre revenues, which last year totalled L3,417bn. The Italian car market has been booming during the last 12 months as a result of government incentives to encourage the purchase of new cars and the scrapping of "old bangers" – vehicles 10 years old or more. These supports have largely benefited large volume producers of smaller cars, such as the Italian Fiat group, and have had inevitable spin-offs for the tyre producers.

However, while Fiat's car range is clearly targeted by Pirelli, Mr Ferrario emphasises that it constitutes only part of Pirelli's strategy. For the Italian group, which has successfully emerged from a period of extensive restructuring after its disastrous attempt to acquire the German tyre manufacturer Continental, has increasingly focused on the top, high-performance end of the market. Mr Ferrario says Pirelli believes there will be a strong increase in European demand for high-performance tyres.

Pirelli is now a leading supplier to some of the world's most prestigious car manufacturers, such as Jaguar, BMW, Ferrari, Porsche, Alfa Romeo, Saab and Rover. It is also a reference supplier for Fiat, Mercedes, Peugeot and Volvo. Ford, Renault and Volkswagen are also customers.

After concentrating on expanding the market penetration of its principal Pirelli brand, Mr Ferrario says the company now intends to develop a package of brands – including its Ceat and Armstrong makes – to combine them with its main Pirelli brand. The aim is to increase sales not only through the Pirelli brand but through a wider range covering 55 to 65 per cent of the trade.

As part of its restructuring, Pirelli has relocated production in low labour cost markets such as Brazil, where it has a particularly strong presence and is continuing to invest heavily, as well as in Turkey and Egypt. Like its competitors it has also invested heavily in rationalising production with substantial flexibility improvements.

Its answer to Michelin's C3M automatic tyre production system is a concept called Flexi. "The idea is to produce a high range of products with very high flexibility," explains Mr Ferrario. "The system enables us to change very quickly the size of tyres as well as the lots. We can produce little lots and then change again without having to increase our stocks," he says.

The Flexi system is already in place at Pirelli's German plant and the idea is to apply the new production improvements both to the company's traditional factories as well as provide the basis for future state of the art smaller tyre plants combining flexibility with low costs.

This, Pirelli believes, will provide it with the flexibility to address a global, highly competitive market which is unlikely to be standardised for many years to come.

JAPAN

Manufacturers left battered, bruised

Falling sales of cars and replacement equipment has called into question the continued independence of some smaller companies, says **Paul Abrahams**

Bridgestone may be riding high, given that McLaren cars equipped with the Japanese company's products lie first and second in the Formula One world motor racing championship, but for the rest of Japan's tyre industry there is blood on the track.

A brutal deceleration in domestic new car sales – down year on year by more than 20 per cent in March – has hammered demand in the original equipment market. Meanwhile, manufacturers have also been clipped by a near 10 per cent collapse in the replacement tyre market in the last financial year. Shipments this year have been far behind companies' expectations, and earnings downgrades have been the order of the day. Japan's domestic manufacturers have been left surprised, battered and bruised. Most are not earning a return above their cost of capital.

The crisis has underlined the wisdom of Bridgestone's once much-criticised internationalisation, while throwing into question the strategies adopted by the second-tier domestically orientated groups. Not least there must be questions about the continued independence of so many domestic manufacturers.

"Given the stagnant domestic market, Japanese tyre companies must become global to grow," argues Edward Brogan, automotive analyst at Salomon Smith Barney. "Tyre companies must possess global branding, distribution and production to avoid becoming producers of commodities."

The problem for second-tier companies such as Sumitomo Rubber and Toyo Rubber is that they simply do not have the resources to pursue such international ambitions. Although many of the companies still have cash on their balance sheets, years of mis-investment and poor returns have left the Japanese manufacturers without the means to internationalise successfully.

Even Yokohama Rubber, Japan's second-largest tyre-maker and the world's seventh-biggest, is struggling. The group's management remains resolutely committed to a strategy of independence and international expansion. Yet 75 per cent of its sales are still derived domestically, and its US operation Yokohama Tire Corporation is in loss.

The group's avowed ambition is to become "the Pirelli of Asia", compensating for its lack of scale by building margins through premium-pricing of high-performance tyres. Brokers Morgan Stanley Dean Witter comment caustically: "It goes without saying that what seems to pass for commonsense within the company is not necessarily considered as such outside the firm."

All this is in stark contrast to Bridgestone, whose acquisition of Firestone in the US has proved a huge success. Boosted by success in Formula One and IndyCar racing, sales rose 10 per cent last year. Underlying margins – measured as earnings before interest tax and depreciation as a proportion of sales – improved from 13 per cent to 14 per cent. Pretax profits, excluding exceptionals, jumped 32 per cent.

Most of Bridgestone's success has come from overseas, where sales expanded 17 per cent last year. Its greatest triumph has been the US, where sales volumes through its distribution network have doubled in five years. Bridgestone is building on its American results: capital spending in the US is expected to reach $700m this year and $610m next year – unimaginable amounts for its Japanese competitors.

True, Bridgestone still needs to build its presence in Europe, where its market share and brand recognition remains low. But its ability to escape the domestic doldrums has been reflected in its share price which since April 1996 has outperformed the Nikkei 225 benchmark index by more than 200 per cent.

Bridgestone has basically left its Japanese competitors stuck on the starting grid. It must now hope it does the same to Michael Schumacher, the German driver who is McLaren's biggest rival. His Ferrari is equipped with tyres supplied by Goodyear of the US.

Track record: Bridgestone is doing well on the Formula 1 circuit Photo: AP

FRANCE

Strong exports provide a welcome ray of sunshine

Michelin is looking to slow but steady growth in a national retail network, writes **David Owen**

You might be forgiven for thinking that the collapse in new car registrations in France last year must have taken its toll on the country's tyre market. Not so, according to figures from the Syndicat National du Caoutchouc et des Polymères (SNCP). These show that not only was the replacement car tyre market up a healthy 10 per cent from 1996 levels, but sales of tyres for new cars – "première monte" – also rose.

The reason, according to the SNCP, was the increased level of export activity. This compensated for the low level of French new car registrations, which fell to their lowest in more than 20 years, reflecting the expiry of incentive schemes that inflated demand artificially until late 1996.

All told, sales of car tyres reached more than 34m in France last year, just over 12m going to première monte and 22m to the replacement market. This compared with 1996 figures of 11.5m and just over 20m respectively.

Progress was still more marked for tyres destined for vans and heavy goods vehicles (HGVs). In the van sector, première monte sales rose by 28 per cent from 365,000 to nearly 468,000. Replacement market sales increased a respectable 10 per cent from 1.3m to 1.44m units.

For HGVs, the première monte figure was up nearly 22 per cent from 373,000 to more than 453,000. Replacement market growth was a much more subdued 3 per cent from 1.07m to a whisker below 1.1m.

It comes as no surprise that Michelin, the world's biggest tyre maker, claims to be number one in its home market, although the company says it has never disclosed its market share. It says it has well below 50 per cent of the market for car tyres and a little over 50 per cent for trucks – down from 70 to 80 per cent about 20 years ago. The French market, it says, generates some 14 per cent of group turnover, which last year totalled almost FFr80bn.

The Clermont-Ferrand-based company says it uses a "soft" multi-brand approach in France, utilising the Michelin, Kléber and B F Goodrich brands. It says B F Goodrich is used for the four-wheel-drive market. Kléber, whose factories are in eastern France, is said to be strong in agriculture and with consumers who particularly value a comfortable ride.

The company says retail chains, including its own Euromaster network, are growing in importance in France, although it suggests the trend is relatively gradual and it thinks it may take 10 years before they reach the level of predominance they have attained in the UK.

Indeed, the group is keen to preserve the remaining small retailers "because they know their customers very, very well. "The closer we are to the customer, the better we know their needs and the better we are able to develop the products of the future," it says. It tries to make deliveries every day to its more than 15,000 French tyre retailers. It stresses that it imposes the same terms on Euromaster as on other networks.

The company, whose net attributable profits last year reached FFr3.88bn in spite of increased commercial, advertising and information systems costs, says that demand for tyres in France remains strong.

In terms of French tyre production, the SNCP estimates 1997 output at 754,000 tonnes. This compares with just over 725,000 tonnes in 1996 and 714,500 in 1995. Car tyres account for more than half this overall market, with trucks the next biggest category. Production in both these important segments fell in 1996 from year-earlier levels, in the case of cars from 393,000 to 386,000 tonnes and trucks from nearly 152,000 to 150,000 tonnes.

GERMANY

Continental is enjoying a resurgence in its fortunes

A sharp improvement in containment of costs has strengthened its position, writes **Graham Bowley**

Germany's tyre industry is dominated by Continental, the Hanover-based company which is enjoying a resurgence in its fortunes. Under chief executive Hubertus von Grünberg, who has headed the group since 1991, the world's fourth-largest tyre manufacturer has restructured and has been steered away from depending solely on tyres into new areas with higher profit margins.

It is these changes which Mr von Grünberg expects to ensure Conti's continued existence in the cut-throat world tyre industry and resist any encroachment by aggressive competitors.

"Given our position at number four, it would be inadequate to give up market share," he says. "I think we will hang on and have all the means in terms of technical leadership and cost base to defend ourselves and hang on profitably."

The strengthening of Conti's position, in particular the sharp improvement in the company's costs, is important given the aggressive stance taken by some of the German group's competitors. Goodyear, of the US, has posted a warning that it wants to double its size, triggering speculation about consolidation in the tyre industry. With just 7 per cent market share, and only half as large as the Big Three producers, Conti might seem exposed.

But Mr von Grünberg insists that Conti is doing enough to ensure its survival. Last year it managed a steep rise in profits, with net earnings increasing 67 per cent to DM322m. Sales increased 7 per cent to DM11.2bn. Size, he insists, is not everything – instead, in the end it will be the most efficient company that will best be able to protect itself. "We have done a lot to ensure we have leadership in cost," he says.

Central to this strategy has been the shifting of large swathes of production from high-cost western European countries such as Germany to cheaper production locations such as eastern Europe. Its factory in the Czech Republic now produces more Conti tyres than any of its other plants. Mr von Grünberg has also introduced more flexible labour agreements in a bid to cut labour costs at the German factories. Individual business units within the company were set targets which they had to meet to justify their continued existence.

"We instilled the elements of competition between independent units," he says. "We considered it legitimate because the whole organisation is in competition. They should feel the cold air of competition just as the company as a whole does."

Conti is stepping up its globalisation, developing a new low-cost manufacturing process that makes its move into new markets easier. The Modular Manufacturing Process (MMP) developed by Conti allows basic tyre parts (modules) to be manufactured in low-cost locations before they are shipped to other markets for final assembly. Conti is building an MMP plant in Brazil and has plans to use MMP in a venture in the former Soviet Union region. Eventually, the Conti chief wants to produce between 5m and 10m tyres using this new process.

But Conti is no longer relying solely on tyres to ensure its future, a sensible strategy in a world where price wars could easily force prices down to uncomfortable levels. With this in mind, Conti has invested heavily in new technology, and in 1994 founded the vehicle systems group to develop and manufacture high-technology (and therefore high-premium) car parts. In alliance with Siemens, of Germany, and Brembo, of Italy, the group has come up with a new electromechanical brake system which has won high praise.

Says Mr von Grünberg: "We are taking our company deliberately to a position that makes it as attractive as we can to Anglo-Saxon shareholders."

Retailing

Why maps are being redrawn

Dealers' territories in the UK are becoming larger as manufacturers strive to meet the changing needs of customers. Haig Simonian looks at the Ford example

The reshaping of car retailing in Britain has raced ahead as manufacturers have adapted their dealer networks to suit changing customer needs.

The process has taken two forms: volume carmakers in particular have pruned their networks to reflect declining market shares at the expense of new importers and specialist brands; and all manufacturers have been looking at the location and distribution of dealerships more critically to reflect changing demographics.

Ford, the UK market leader, has been at the forefront. Stung by its steadily-declining share of new car sales, the company has embarked on a radical revision of how and where it sells cars with the introduction of new "customer marketing areas" (CMAs).

The process is now in top gear. About 60 per cent of sales go through dealers which have had their sales territories redrawn under the CMA process, says Ian McAllister, chairman of Ford of Britain.

The aim is to create new, bigger dealership territories which reflect altered national demographic and consumer trends. An out-of-town shopping centre, for example, could significantly alter the attractiveness of a high street site if consumers start buying elsewhere.

Such local issues have combined with manufacturers' growing interest in gaining economies of scale through fewer, bigger territories to stimulate a root and branch revision of dealer networks.

Carmakers and dealers agree that bigger territories are vital to offset the costs of modernising premises and investing in better-trained staff and up-to-date facilities.

Bigger dealerships do not necessarily mean the end of local outlets. Some of the new territories operate on the "hub and spoke" principal established in the airline industry.

That means one central outlet, which incorporates back-office facilities and specialist fleet or wholesale functions, also services a number of retail "satellites". While the latter have some cars and staff on hand, specialist functions and all the paperwork is handled by the main outlet. Other specialist functions, such as body repairs, which do not require expensive city centre premises, are "unbundled" and located elsewhere.

Although Ford is the biggest manufacturer to redraw its dealership maps, others have been going the same way.

Much of the pioneering work was done by Volvo in the early 1990s. The company realised it could improve service and profits by having fewer outlets covering much larger territories. Such rationalisation would not only save money on functions such as logistics and encourage new investment, but also reduce the risk of intra-brand competition endemic to car retailing.

Every manufacturer says one of the biggest dangers of having a number of smallish dealerships clustered in one area is the risk they will compete against each other rather than rival brands. Every canny customer knows the best way to buy a car is to choose in private, and then play off one salesman against another to get the best deal.

To avoid intra-dealer competition, Volvo created much bigger sales territories controlled by one company, which would operate on the principle of central locations and satellites if necessary.

Fiat has followed suit. Sales within London's M25 orbital motorway are now handled by a subsidiary of Pendragon, one of Britain's biggest multi-brand dealerships. Pendragon has set up a special subsidiary to satisfy Fiat's concerns that its interests will be pursued diligently and its secrets not shared with other parts of the business. In return for exclusivity, Pendragon has invested in pricey new premises to improve the Italian group's image around the capital. So far, both sides seem pleased with their arrangement.

Redrawing dealership maps is, however, harder than it looks. Ford commissioned GMAP, a specialist market research group spun off from Leeds University, to create "a new demographic model" on which to base its CMAs, says Mr McAllister.

"Carmakers have realised they need a new structure appropriate to the retailing revolution. We asked ourselves: how do we create something which would be best for us and best for our dealers".

The research, conducted by a team which had already done similar work for retail banks, put together a general "geo-demographic" model. Further information, such as the location of new housing estates and shopping developments, were then added.

On that basis, Ford was able to work out the optimum level of sales per outlet. The need for adequate geographical coverage had to be balanced against recognition that too many dealerships would dilute profitability.

Britain proved ideal for the dealer realignment, which Ford and other US manufacturers are also pursuing more modestly in their home market, because of its unique motor retailing sector.

The business is dominated by a relatively small number of big public companies. In the US and continental Europe, by contrast, selling cars is still largely in the hands of small companies, usually family-owned and based on a single outlet.

The bigger British groups had the financial resources to invest in the new facilities required by Ford. And they were more willing to entertain novel concepts, such as swapping dealerships to help create the bigger CMAs required, than more parochial family concerns.

Take the case of Cambridge and Newmarket, where Ford was represented by two dealers, and Slough and Maidenhead, where the same two retailers have the Ford franchise. A swap between the two companies created two much bigger areas, comprising Cambridge-Newmarket and Slough-Maidenhead, held by one company each.

Mr McAllister claims the CMA concept is beneficial for all parties. Manufacturers gain better representation and can cut some of their distribution costs; dealers have the prospect of better margins, while buyers are offered better facilities and service. Such a "win, win" may explain why so many other carmakers are now climbing on board the CMA bandwagon.

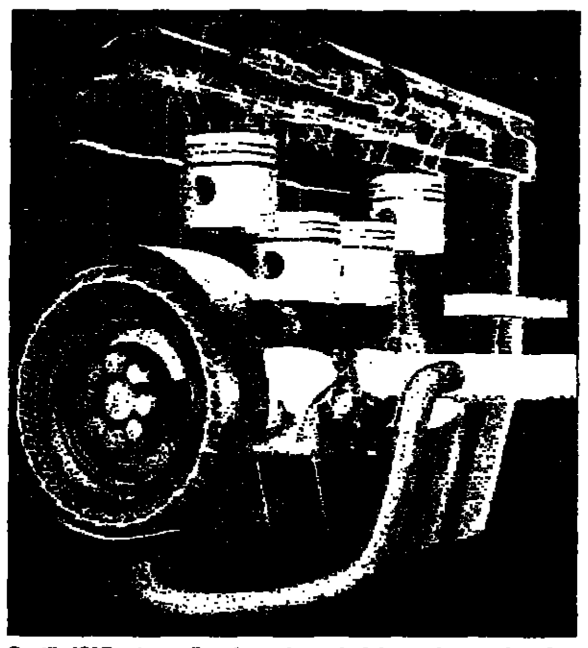
Technology

Conti makes advances

John Griffiths looks at how a German tyremaker is diversifying into automotive systems. Already it has won an innovation award

Continental, Germany's biggest tyres group, is moving rapidly into advanced automotive systems development and manufacturing in pursuit of higher profit margins and growth than can be provided by world tyre markets.

Its new division set up specifically to develop the business, Automotive Systems Group, has already won one German industry innovation award, despite the fact that the winning technology – an engine crankshaft-mounted starter/alternator which allows the engine to dispense with a conventional flywheel – will not go into production until after the turn of the century.



Conti's ISAD rotates directly on the end of the engine crankshaft

The system, called ISAD (integrated starter alternator damper), combines the functions of two ordinarily separate and heavy pieces of electrical equipment, the starter and alternator. Because it rotates directly on the end of the crankshaft starting noise is eliminated.

Much more significantly, it is fitted with a simple start-stop control which can shut off the engine when the car is at standstill or on the overrun while slowing down – restarting it automatically as soon as the accelerator pedal is depressed. Conti claims fuel savings of up to 30 per cent in urban traffic and a large drop in exhaust emissions as a result.

It also allows the storage of electrical energy to give a temporary additional power boost lasting several minutes.

The system is claimed to increase generator efficiency by 80 per cent because of the advanced electronics involved.

Conti expects to start commercial production of the ISAD system in about two years' time, according to its chairman, Hubertus von Grünberg. As yet, however, there are no indication of which carmaker will be first to deploy it.

The system is one of a number of innovations – others include advanced "brake-by-wire" systems – planned to take Conti into the mainstream automotive systems sector.

"We are proceeding systematically from rubber products to electronics in order to achieve complete systems for vehicles – the Automotive Systems Group is the logical union of tyres and systems engineering," says Hans Albert Beller, head of the systems division.

Safety comes in bags

Mercedes-Benz is to offer window bags for extra protection

First there was the front airbag, then the side airbag – now Mercedes-Benz, Germany's luxury car maker, is to introduce the windowbag, writes John Griffiths.

About two metres long, the two curtain-like windowbags are attached to the inside of the roof frame, between the front and rear roof pillars. They inflate within 25 milliseconds of impact, creating a protective cushion for the head and upper torso of front and rear seat occupants along each side.

The bags, which are about a foot deep and two inches thick, work in conjunction with side and front bags – making a total of eight which can inflate simultaneously in a collision – and also act as a shield against broken glass entering the passenger compartment.

Mercedes-Benz is to introduce the window bags initially as optional equipment on its E-Class models, starting in July. Their UK cost will be around £310.

Side airbags, mounted in the vehicle doors, will also be offered as an option as part of an overall safety package from July and will include seat belt tensioners. Mercedes-Benz executive estimate the overall cost at £820.

Other Mercedes models are expected to be equipped with the systems at a later date.

CASE STUDY Wayne Huizenga

The haggle and hassle banished

Wayne Huizenga: picked on a highly fragmented industry Photo: AP

The latest foray by Wayne Huizenga, the Florida-based billionaire, into the world of car retailing, has carried all the businessman's well-known hallmarks.

As with his previous ventures – which led to the creation of Waste Management, the nation's biggest garbage haulier, and Blockbuster, the large, international video rental chain – Mr Huizenga has picked on an industry which has traditionally been highly-fragmented. And, in a replication of early events at Waste and Blockbuster, he has embarked on a quick-fire consolidation, snapping up groups of dealerships, usually through the issuance of stock in his quoted Republic Industries.

The speed and scale of this process has been daunting. Mr Huizenga bought into Republic in 1995 when its annual revenues were about \$55m. In the most recent quarter – the three months to end-March – the figure was \$3.4bn. At the last count Republic owned 26 AutoNation megastores, specialising in used cars, and 55 dealer groups, comprising 293 franchises on the new car side.

This rapid consolidation, moreover, has been conducted in the context of an industry already ripe for change. Car retailing, particularly the used car segment, has always had a downmarket, not to say dubious, reputation.

Now new technologies – such as the internet – offer customers a head-start. They have access to much better information on prices, and can even make purchases electronically.

Mr Huizenga has argued that this makes buyers increasingly reluctant to haggle with used-car salesmen on windswept lots. Part of the thinking from the outset was to offer customers a more palatable experience at Republic's AutoNation used car chain – fixed, no-haggle prices, some warranties, more attractive salerooms.

This philosophy was not unique to Republic: a handful of other companies, such as CarMax, were already attempting something similar. But Mr Huizenga's track record and the scale of his ambitions at Republic meant that the spotlight automatically pointed in his direction.

But, striking though the similarities have been between the first few years at Republic and the Waste and Blockbuster situations, there have also been differences.

For a start, car retailing is a more complex industry than videos – involving interplay between both the new cars and used cars markets. Mr Huizenga's solution was to buy into all sectors of the market: Republic snapped up rental car groups such as Alamo and National, as well as new car franchises. The idea was that new cars, after a few years of driving, could feed into the rental business, which in turn could feed products to the used car segment.

But, despite this supposed supply chain, the AutoNation used car superstores have yet to become profitable. Most recent results from Republic – which topped analysts' forecasts overall – showed them making a small loss in the first quarter of 1998. The company, however, is still predicting that the unit will become profitable by the third quarter of the year, at the latest.

Moreover, not all carmakers have been happy to see their dealerships sell out to Republic, and expressed misgivings over Mr Huizenga's consolidation strategy. For example, Nissan has taken legal action trying to block certain sales.

Wall Street, too, has wearied a little under the weight of stock being issued by Republic. The company's shares, which soared to over \$40 in early 1997, have sunk back to around \$27 recently.

Finally, Republic has never been a pure auto-retailing business – rather its interests have spread from security businesses to waste management services, Mr Huizenga's old stomping ground. The security business has now been sold to Ameritech. The waste interests, run the rumours, may also be spun off in the relatively near-future. If that is the case, Republic will then become a truer test of Mr Huizenga's plans for the auto-retailing industry.

Nikki Tait

Sometimes, to simplify means delivering a world of components, systems and modules.
Delphi Automotive Systems applies world-class technology across the widest product range in the automotive industry. With 208 manufacturing facilities and 27 technical centers in 36 countries, Delphi can work with you to deliver integrated steering, chassis, electrical/electronic, energy and engine management, thermal, interior, and electronics components, systems and modules around the world. To learn more about partnering with Delphi, visit www.delphiauto.com.
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